

STERLING FINANCIAL CORP /WA/

Form S-4/A

January 10, 2007

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As filed with the Securities and Exchange Commission on January 10, 2007.

Registration No. 333-139222

**SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

**Amendment No. 1
to**

**Form S-4
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933**

STERLING FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

WASHINGTON
*(State or other jurisdiction of
incorporation or organization)*

6719
*(Primary Standard Industrial
Classification Code Number)*

91-1572822
*(I.R.S. Employer
Identification No.)*

**111 North Wall Street
Spokane, Washington 99201
(509) 227-5389**
*(Address, including zip code, and telephone number,
including area code, of registrant's principal executive offices)*

**Andrew J. Schultheis, Secretary
Sterling Financial Corporation
111 North Wall Street
Spokane, Washington 99201
(509) 227-5389**
*(Name, address, including zip code, and telephone number,
including area code, of agent for service)*

Copies of communications to:

**Andrew J. Schultheis, Esq.
Richard A. Repp, Esq.
Witherspoon, Kelley, Davenport & Toole, P.S.
1100 U.S. Bank Building
422 West Riverside Avenue
Spokane, Washington 99201
(509) 624-5265**

**Lyman Lea, Esq.
Jane Richardson, Esq.
Haines & Lea
465 California Street, Suite 200
San Francisco, California 94014
(415) 981-1050**

Approximate date of commencement of the proposed sale of the securities to the public: As soon as practicable after the effective date of this Registration Statement and upon consummation of the transactions described herein.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. ☐

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment that specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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Sterling Financial Corporation

Northern Empire Bancshares

To the Shareholders of Sterling Financial Corporation and Northern Empire Bancshares:

The boards of directors of Sterling Financial Corporation (Sterling) and Northern Empire Bancshares (Northern Empire) have unanimously approved an agreement to combine our companies. If the merger is completed, Northern Empire will merge into Sterling, with Sterling being the surviving corporation. Each share of Northern Empire common stock will be converted into 0.8050 shares of Sterling common stock and \$2.71 in cash. The exchange ratio is fixed and will not be adjusted based on changes in the market prices of our common stock prior to closing, except under certain circumstances that are described in the accompanying joint proxy statement/prospectus.

The value of the merger consideration received by Northern Empire shareholders will fluctuate with the market price of Sterling common stock.

Based upon the closing price for Sterling common stock on September 15, 2006 (the last trading day prior to the public announcement of the merger) of \$33.04 per share, the 0.8050 exchange ratio plus the \$2.71 in cash represented approximately \$29.31 in value for each share of Northern Empire common stock.

Based upon the closing price for Sterling common stock on January 8, 2007 of \$33.47 per share, the 0.8050 exchange ratio plus the \$2.71 in cash represented approximately \$29.65 in value for each share of Northern Empire common stock.

We urge you to obtain current market price quotations for Sterling and Northern Empire common stock. Sterling common stock is quoted on the Nasdaq Global Select Market under the symbol STSA. Northern Empire common stock is quoted on the Nasdaq Global Market under the symbol NREB.

We cannot complete the merger unless the shareholders of both Sterling and Northern Empire approve the merger agreement. Each of our companies will hold a special meeting of shareholders to vote on the proposed merger. Your vote is very important. Whether or not you plan to attend your special meeting, please take the time to vote by completing and mailing the enclosed proxy card to us. The date of the Sterling special meeting is February 21, 2007. The date of the Northern Empire special meeting will be February 20, 2007. Notices of both meetings follow this letter. **Please vote as soon as possible to make sure that your shares are represented at the special meeting of either Sterling or Northern Empire, as applicable. If you do not vote, it will have the same effect as voting against the merger agreement.**

The accompanying joint proxy statement/prospectus gives you important information about the proposed merger and related matters. You should read this entire document carefully, including the section entitled Risk Factors beginning on page 10, before you decide how to vote on the merger and the transactions contemplated by the merger agreement. The accompanying joint proxy statement/prospectus also incorporates important business and financial information and risk factors about Sterling that are not included in or delivered with this document. See the section Where You Can Find More Information on page 82.

The respective boards of directors of Sterling and Northern Empire have unanimously determined that the terms of the merger agreement and the merger are fair to and in the best interests of their respective shareholders. The financial advisors for Sterling and Northern Empire have each separately determined that the merger consideration is fair from

a financial point of view to the respective shareholders of Sterling and Northern Empire. We enthusiastically join the other members of our boards of directors in recommending that you vote FOR approval of the merger.

/s/ Harold B. Gilkey

Harold B. Gilkey
Chairman and Chief Executive Officer
Sterling Financial Corporation

/s/ Deborah A. Meekins

Deborah A. Meekins
President and Chief Executive Officer
Northern Empire Bancshares

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the shares to be issued under this proxy statement/prospectus or passed upon the adequacy or accuracy of this proxy statement/prospectus. Any representation to the contrary is a criminal offense.

The securities that Sterling is offering through this proxy statement/prospectus are not savings or deposit accounts or other obligations of any bank or nonbank subsidiary of Sterling or Northern Empire, and they are not insured by the Federal Deposit Insurance Corporation, the Deposit Insurance Fund, or any other governmental agency.

You should rely only on the information provided or incorporated by reference in this proxy statement/prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information in this proxy statement/prospectus is accurate as of any date other than the date below.

This joint proxy statement/prospectus is dated January 10, 2007 and is first being mailed to the shareholders of Sterling and Northern Empire on or about January 17, 2007.

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REFERENCES TO ADDITIONAL INFORMATION

This proxy statement/prospectus incorporates important business and financial information about Sterling and Northern Empire from other documents that are not included in or delivered with this document. This information is available to you without charge upon written or oral request. You can obtain documents relating to Sterling that are incorporated by reference in this document through the website of the Securities and Exchange Commission (SEC) at www.sec.gov or by requesting them in writing or by telephone from Sterling at:

Sterling Financial Corporation
111 North Wall Street
Spokane, Washington 99201
Attn: Investor Relations
(509) 227-5389

You can obtain documents related to Northern Empire through the website of the SEC at www.sec.gov or by requesting them in writing or by telephone from Northern Empire at:

Northern Empire Bancshares
801 Fourth Street
Santa Rosa, California 95404
Attn: Deborah A. Meekins or Jane M. Baker
(707) 579-2265

All website addresses given in this document are for information only and are not intended to be an active link or to incorporate any website information into this document.

Please note that copies of the documents provided to you will not include exhibits, unless the exhibits are specifically incorporated by reference into the documents or this document.

If you would like to request documents, please do so by February 14, 2007 in order to receive them prior to Sterling's or Northern Empire's special meeting of shareholders. See the section entitled "Where You Can Find More Information" on page 81.

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**Sterling Financial Corporation
111 North Wall Street
Spokane, Washington 99201**

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

Date: February 21, 2007

Time: 10:00 a.m.

Place: 4th Floor Boardroom, Sterling Financial Corporation, 111 North Wall Street, Spokane, Washington

TO OUR SHAREHOLDERS:

We are pleased to notify you of and invite you to our special meeting of shareholders. At the meeting, you will be asked to vote on the following matters:

approval of the Agreement and Plan of Merger, dated as of September 17, 2006, by and between Sterling Financial Corporation and Northern Empire Bancshares. The merger agreement provides the terms and conditions under which it is proposed that Northern Empire merge with Sterling, as described in the accompanying proxy statement/prospectus;

any proposal of the Sterling board of directors to adjourn or postpone the special meeting; and

any other business that may be properly submitted to a vote at the special meeting or any adjournment or postponement of the special meeting.

Common shareholders of record at the close of business on January 12, 2007 are entitled to notice of, and to vote at, the special meeting and any adjournments or postponements of the special meeting. The required quorum for the transaction of business at the special meeting is a majority of the shares of Sterling common stock outstanding on the record date, represented in person or by proxy. For the merger agreement to be approved by Sterling shareholders, a majority of the votes cast in person or by proxy at the special meeting must vote FOR approval of the merger agreement.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Andrew J. Schultheis
Andrew J. Schultheis
Secretary

Spokane, Washington
January 10, 2007

Your vote is very important

To ensure that your shares are voted at the special meeting, please complete, sign and date your proxy card and return it in the enclosed envelope promptly. You can also vote by telephone or through the Internet by

following the instructions on the proxy card. If you hold your shares in street name with a bank or broker, you must instruct the street name holder regarding how to vote your shares and you must follow the procedures set forth by your street name holder.

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**Northern Empire Bancshares
801 Fourth Street
Santa Rosa, California 95404**

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

Date: February 20, 2007

Time: 5:00 p.m.

Place: 801 Fourth Street, Santa Rosa, California

TO OUR SHAREHOLDERS:

We are pleased to notify you of and invite you to our special meeting of shareholders. At the meeting, you will be asked to vote on the following matters:

approval of the Agreement and Plan of Merger, dated as of September 17, 2006, by and between Sterling Financial Corporation and Northern Empire Bancshares. The merger agreement provides the terms and conditions under which it is proposed that Northern Empire merge with Sterling, as described in the accompanying proxy statement/prospectus;

any proposal of the Northern Empire board of directors to adjourn or postpone the special meeting; and

any other business that may be properly submitted to a vote at the special meeting or any adjournment or postponement of the special meeting.

Common shareholders of record at the close of business on January 12, 2007 are entitled to notice of, and to vote at, the special meeting and any adjournments or postponements of the special meeting. The affirmative vote of the holders of a majority of the outstanding shares of Northern Empire common stock as of that date is required to approve the merger agreement.

In limited circumstances set forth in California law, dissenters' rights of appraisal are available to Northern Empire shareholders in connection with the merger. The provisions of California law regarding dissenters' rights of appraisal are summarized in this proxy statement/prospectus under the heading "Dissenters' Rights." In addition, the relevant California statutory provisions regarding dissenters' rights are attached to this document as Appendix D.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Patrick R. Gallaher
Patrick R. Gallaher
Secretary

Santa Rosa, California
January 10, 2007

Your vote is very important

To ensure that your shares are voted at the special meeting, please complete, sign and date your proxy card and return it in the enclosed envelope promptly. You can also vote by telephone or through the Internet by following the instructions on the proxy card. If you hold your shares in street name with a bank or broker, you must instruct the street name holder regarding how to vote your shares and you must follow the procedures set forth by your street name holder.

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QUESTIONS AND ANSWERS ABOUT THE MERGER

The following are some of the questions that you, as a shareholder of either Sterling or Northern Empire, may have and answers to those questions. These questions and answers, as well as the following summary, are not meant to be a substitute for the information contained in the remainder of this document, and this information is qualified in its entirety by the more detailed descriptions and explanations contained elsewhere in this document. We urge you to read this document in its entirety prior to making any decision with respect to the vote of your Sterling or Northern Empire common stock on the merger agreement.

Q1: Why do Sterling and Northern Empire want to merge?

A1: We are proposing to merge because we believe the combined company will be a stronger, more competitive company.

Q2: What will Northern Empire shareholders receive in the merger?

A2: Northern Empire shareholders will receive, in exchange for each share of Northern Empire common stock they hold, consideration equal to 0.8050 shares of Sterling common stock and \$2.71 in cash as well as cash in lieu of fractional shares. Because the market price of Sterling common stock is subject to fluctuation, the value of the shares of Sterling common stock that you receive in the merger may increase or decrease prior to and after the merger.

Q3: What is being voted on at the Sterling special meeting?

A3: Sterling shareholders will be asked to vote on the approval of the merger as well as other business that may be properly submitted to a vote at the special meeting or any adjournment or postponement of the special meeting.

Q4: Who is entitled to vote at the Sterling special meeting?

A4: Sterling shareholders of record at the close of business on January 12, 2007, are entitled to receive notice of and to vote on matters that come before the special meeting and any adjournments or postponements of the special meeting. However, a Sterling shareholder may only vote his or her shares if he or she is present in person or is represented by proxy at the special meeting.

Q5: What is being voted on at the Northern Empire special meeting?

A5: Northern Empire shareholders will be asked to vote on the approval of the merger as well as other business that may be properly submitted to a vote at the special meeting or any adjournment or postponement of the special meeting.

Q6: Who is entitled to vote at the Northern Empire special meeting?

A6: Northern Empire shareholders of record at the close of business on January 12, 2007, are entitled to receive notice of and to vote on matters that come before the special meeting and any adjournments or postponements of the special meeting. However, a Northern Empire shareholder may only vote his or her shares if he or she is present in person or is represented by proxy at the special meeting.

Q7: How do I vote?

A7: Please carefully read and consider the information contained in this joint proxy statement/prospectus. Then, please mail your completed and signed proxy card in the enclosed return envelope as soon as possible so that your shares may be voted at the special meeting of shareholders for either Sterling or Northern Empire. You can also vote by telephone or through the Internet by following the instructions on the proxy card. If you hold your shares in street name with a bank or broker, you must instruct the street name holder regarding how to vote your shares, and you must follow the procedures set forth by your street name holder. Sterling or Northern Empire shareholders may also attend their respective special meeting and vote in person. However, even if you are planning to attend the special meeting of either Sterling or Northern Empire, we request that you complete, sign and return your proxy card. For more detailed information, please see the sections entitled The Special Meeting of Sterling Shareholders or The Special Meeting of Northern Empire Shareholders beginning on pages 26 and 30, respectively.

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Q8: How many votes do I have?

A8: Each share of Sterling common stock that you own as of the record date entitles you to one vote. As of the close of business on January 8, 2007, there were 42,085,948 outstanding shares of Sterling common stock. As of that date, 6.08% of the outstanding shares of Sterling common stock was held by directors and executive officers of Sterling and their respective affiliates.

Each share of Northern Empire common stock that you own as of the record date entitles you to one vote. As of the close of business on January 10, 2007, there were 11,013,017 outstanding shares of Northern Empire common stock. As of that date, 15.9% of the outstanding shares of Northern Empire common stock was held by directors and executive officers of Northern Empire and their respective affiliates.

Q9: What constitutes a quorum at Sterling's or Northern Empire's special meeting?

A9: The presence of the holders of a majority of the shares entitled to vote at the Sterling and Northern Empire special meetings constitutes a quorum. Presence may be in person or by proxy. Your shares will be considered part of the quorum if you return a signed and dated proxy card, or if you attend the special meeting in person.

Q10: Why is my vote important?

A10: If you are not present, by proxy or in person, at the special meeting, it will be more difficult for Sterling and Northern Empire to obtain the necessary quorum to hold their respective special meetings. In addition, if you fail to vote, by proxy or in person, it will have the same effect as a vote against approval of the merger agreement. The required quorum for the transaction of business at the Sterling and Northern Empire special meetings is a majority of the shares of Sterling and Northern Empire common stock, respectively, outstanding on the record date, represented in person or by proxy. For the merger agreement to be approved by Sterling shareholders, a majority of the votes cast in person or by proxy at the special meeting must vote FOR approval of the merger agreement. In addition, a majority of the outstanding shares of Northern Empire common stock entitled to vote at the Northern Empire special meeting must approve the merger agreement. If you are the record holder of your shares (meaning a stock certificate has been issued in your name and/or your name appears on either Sterling's or Northern Empire's stock ledger, as applicable) and you sign and return a proxy card but do not indicate how you want to vote, your proxy will be counted as a vote in favor of approval of the merger agreement. If your shares are held in street name with a broker or other street name holder, your street name holder will vote your shares on the merger agreement proposal *only* if you provide instructions to it on how to vote. For Northern Empire shareholders, failure to properly instruct the street name holder or instructions to the street name holder to abstain from voting will have the same effect as a vote against the merger agreement. For Sterling shareholders, failure to properly instruct the street name holder or instructions to the street name holder to abstain from voting will have the effect of reducing the number of votes required to approve the merger agreement.

Q11: What is the recommendation of the Sterling and Northern Empire boards of directors?

A11: The boards of directors of both Sterling and Northern Empire unanimously recommend a vote FOR approval of the merger agreement.

Q12: Has either Sterling or Northern Empire obtained a fairness opinion with respect to the merger?

A12:

Yes. Sterling and Northern Empire each obtained a fairness opinion with respect to the merger. Sterling retained the services of Keefe, Bruyette and Woods, Inc. (KBW), financial services industry consultants. KBW delivered its opinion dated September 17, 2006, to the board of directors of Sterling that, subject to certain assumptions, limitations and qualifications stated therein, the common stock and cash consideration to be given by Sterling in exchange for acquiring Northern Empire was fair to Sterling and its shareholders from a financial point of view. KBW confirmed its fairness opinion as of January 10, 2007. KBW will receive a fee, plus expenses, in connection with its issuance of the fairness opinion. See The Merger

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Opinion of Sterling's Financial Advisor.

Northern Empire retained the services of Sandler O'Neill & Partners, L.P. (Sandler O'Neill), financial services industry consultants. Sandler O'Neill delivered its opinion dated September 15, 2006, to the board of directors of Northern Empire that, subject to certain assumptions, limitations and qualifications stated therein, the consideration to be received by Northern Empire shareholders was fair to Northern Empire shareholders from a financial point of view. Sandler O'Neill confirmed its fairness opinion as of January 10, 2007. Sandler O'Neill will receive a fee, plus expenses, in connection with its issuance of the fairness opinion. See The Merger Opinion of Northern Empire's Financial Advisor.

Q13: What if I return my proxy but do not mark it to show how I am voting?

A13: If your proxy card is signed and returned without specifying your choice, your shares will be voted FOR approval of the merger agreement in accordance with the recommendation of the Sterling or Northern Empire board of directors, as applicable.

Q14: Can I change my vote after I have mailed my signed proxy card?

A14: Yes. You can change your vote by revoking your proxy at any time before it is exercised at the special meeting for either Sterling or Northern Empire. You can revoke your proxy in one of three ways:

notify Sterling's or Northern Empire's corporate secretary, as applicable, in writing before the applicable special meeting that you are revoking your proxy,

submit another proxy with a later date prior to the special meeting, or

vote in person at the special meeting.

Q15: What regulatory approvals are required to complete the merger?

A15: In order to complete the merger, Sterling must first obtain the prior approval of the Board of Governors of the Federal Reserve System (Federal Reserve Board or FRB). In addition, the acquisition of Northern Empire is subject to the receipt of prior approval from the Office of Comptroller of Currency, or OCC, the Federal Deposit Insurance Corporation, or FDIC, and the Washington Department of Financial Institutions, or WDFI. Applications for prior approval of the merger by the Federal Reserve Board, the OCC, the FDIC and the WDFI were filed on or about December 11, 2006.

Q16: Do I have dissenters' or appraisal rights with respect to the merger?

A16: Under California law, the shareholders of Northern Empire have dissenters' rights of appraisal under limited circumstances. The provisions of California law regarding dissenters' rights of appraisal are summarized in this proxy statement/prospectus under the heading Dissenters' Rights. In addition, the relevant California statutory provisions regarding dissenters' rights are attached to this document as Appendix D.

The shareholders of Sterling do not have dissenters' or appraisal rights in connection with the proposed acquisition of Northern Empire.

Q17: What are the material U.S. federal income tax consequences of the merger to me?

A17: The merger will qualify for U.S. federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, referred to herein as the Code. As a result, we expect that, for U.S. federal income tax purposes, Northern Empire shareholders receiving part cash and part Sterling common stock generally will recognize gain, but not loss, equal to the lesser of (i) the excess, if any, of the fair market value of the Sterling common stock and the amount of cash received over the adjusted tax basis in the Northern Empire common stock exchanged in the merger or (ii) the amount of cash received in the merger.

For further information concerning U.S. federal income tax consequences of the merger, please see the

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section entitled "The Merger - Material United States Federal Income Tax Considerations of the Merger" beginning on page 54 of this joint proxy statement/prospectus.

Q18: What risks should I consider before I vote on the merger?

A18: We encourage you to read carefully the detailed information about Sterling, Northern Empire and the merger contained and incorporated by reference in this document, including the section entitled "Risk Factors" beginning on page 10.

Q19: When do you expect to complete the merger?

A19: We are working to complete the merger by no later than April 2, 2007. We must first obtain the necessary regulatory approvals and the approval of Sterling's and Northern Empire's shareholders at their respective special meetings. We cannot assure you as to if and when all the conditions to the merger will be met nor can we predict the exact timing. It is possible we will not complete the merger.

Q20: Whom should I contact with questions or to obtain additional copies of this document?

A20: Sterling Financial Corporation
111 North Wall Street
Spokane, Washington 99201
Attn: Investor Relations
(509) 227-5389

Northern Empire Bancshares
801 Fourth Street
Santa Rosa, California 95404
Attn: Deborah A. Meekins or Jane M. Baker
(707) 579-2265

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SUMMARY

This summary highlights selected information about the merger but may not contain all of the information that may be important to you. You should carefully read this entire document and the other documents to which this document refers for a more complete understanding of the matters being considered at the Sterling and Northern Empire special meetings. See the section entitled "Where You Can Find More Information" beginning on page 82. Unless we have stated otherwise, all references in this document to Sterling are to Sterling Financial Corporation, all references to Northern Empire are to Northern Empire Bancshares, and all references to the merger agreement are to the Agreement and Plan of Merger, dated as of September 17, 2006, between Sterling and Northern Empire, a copy of which is attached as Appendix A to this document. In this document, we often refer to the combined company, which means, following the merger, Sterling and its subsidiaries, including Northern Empire's sole subsidiary, Sonoma National Bank (Sonoma). References to we, us and our in this document mean Sterling and Northern Empire together.

The Companies

Sterling Financial Corporation
111 North Wall Street
Spokane, Washington 99201
Attn: Investor Relations
(509) 227-5389

Sterling Financial Corporation (Sterling) is a bank holding company, the significant operating subsidiaries of which are Sterling Savings Bank and Golf Savings Bank. The principal operating subsidiaries of Sterling Savings Bank are Action Mortgage Company (Action Mortgage), INTERVEST-Mortgage Investment Company (INTERVEST) and Harbor Financial Services, Inc. (Harbor Financial). Sterling Savings Bank commenced operations in 1983 as a Washington State-chartered federally insured stock savings and loan association headquartered in Spokane, Washington. On July 8, 2005, Sterling Savings Bank converted to a commercial bank. The main focus of Golf Savings Bank, a Washington State-chartered savings bank acquired by Sterling in July 2006, is the origination and sale of single-family residential mortgage loans.

Sterling provides personalized, quality financial services and Perfect Fit banking products to its customers consistent with its Hometown Helpful philosophy. Sterling believes that its dedication to personalized service has enabled it to grow both its retail deposit base and its lending portfolio in the western United States. With \$8.91 billion in total assets at September 30, 2006, Sterling originates loans and attracts Federal Deposit Insurance Corporation (FDIC) insured deposits from the general public through 145 financial service centers located throughout the west. In addition, Sterling originates loans through Golf Savings Bank and Action Mortgage residential loan production offices and through INTERVEST commercial real estate lending offices in the west. Sterling also markets fixed income and equity products, mutual funds, fixed and variable annuities and other financial products through Harbor Financial service representatives located throughout Sterling's financial service center network. As of September 30, 2006, Sterling had total assets of \$8.91 billion, net loans receivable of \$6.24 billion, deposits of \$5.95 billion and shareholders' equity of \$608.7 million. On November 30, 2006, Sterling completed the acquisition of FirstBank NW Corp. (FirstBank), which included the merger of FirstBank's wholly owned banking subsidiary with and into Sterling Savings Bank. As of September 30, 2006, FirstBank had total assets of \$884.2 million, net loans receivable of \$671.2 million, deposits of \$633.4 million and shareholders' equity of \$82.8 million. Sterling trades on the Nasdaq Global Select Market under the symbol of STSA.

Northern Empire Bancshares

801 Fourth Street
Santa Rosa, California 95404
Attn: Deborah A. Meekins or Jane M. Baker
(707) 579-2265

Northern Empire was incorporated as a California corporation on June 8, 1982 for the purpose of becoming a bank holding company of Sonoma. Northern Empire is a bank holding company registered under the Bank Holding Company Act of 1956 and is subject to supervision by the Board of Governors of the Federal Reserve System. On

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April 27, 2000, Northern Empire also elected to become a financial holding company under the Gramm-Leach-Bliley Act of 1999. Northern Empire's sole subsidiary is Sonoma and its activities are the commercial banking activities engaged in through Sonoma and some lending through loan participations with Sonoma. As of September 30, 2006, Northern Empire had total assets of \$1.37 billion, net loans receivable of \$1.21 billion, deposits of \$962.1 million and shareholders' equity of \$121.5 million.

Sonoma was organized as a national banking association on March 27, 1984 and commenced operations on January 25, 1985. It currently has twelve banking offices operating in Sonoma, Marin and Contra Costa Counties, California. As a national bank, Sonoma is subject to supervision, regulation and regular examination by the Office of the Comptroller of Currency (OCC). It is also a member of the Federal Reserve System and, as such, is subject to applicable provisions of the Federal Reserve Act and regulations issued thereunder. The deposits of Sonoma are insured by the FDIC, and Sonoma is therefore subject to applicable provisions of the Federal Deposit Insurance Act and regulations of the FDIC. Sonoma is also subject to applicable provisions of California law, insofar as they do not conflict with or are not pre-empted by Federal law. The statutes and regulations administered by these agencies govern most aspects of Sonoma's business, including required reserves against deposits, loans, investments, dividends, deposit insurance premiums, mergers and acquisitions, the establishment of new branches and other banking facilities, disclosure obligations to depositors and borrower and customer privacy.

Sonoma engages in the general commercial banking business. It accepts checking and savings deposits, offers money market deposit accounts and certificates of deposit, makes secured and unsecured commercial, construction, other installment and term loans, and offers other customary banking services. Sonoma makes commercial loans guaranteed by the Small Business Administration, (SBA), which may be sold in the secondary market.

Within Sonoma's Loan Department are groups of lenders specializing in commercial, construction and SBA lending. SBA loans are funded by Sonoma and then Sonoma may, at its option, sell the portion of the loan guaranteed by the SBA (generally 75% to 85% of the total loan amount, depending on the purpose and term of the loan). When a SBA loan is sold, Sonoma retains the unguaranteed portion of that loan and the right to service the loan. Income from loan sales is recorded in non-interest income. The SBA program is subject to budgetary restrictions and other revisions by the government which could have a negative impact on Sonoma's profit. Sonoma is designated as a Preferred Lender by the SBA. This means that it may fund a loan without credit review and underwriting performed by the SBA.

Sonoma's primary market area and source of most of its loan business is Sonoma County, the greater Bay Area in California, and Arizona (mainly in the area surrounding Phoenix). Sonoma has expanded its lending territory for construction loans, commercial real estate loans and loans made under the programs of the SBA. Sonoma has loan production facilities in Phoenix, Arizona and San Rafael, Sacramento, San Francisco and Walnut Creek, California. The primary market area for deposit business is Sonoma and Marin Counties.

The Merger (Page 34)

We propose a merger in which Northern Empire will merge with and into Sterling. The merger agreement also provides that Sterling may elect to merge Sonoma with and into Sterling Savings Bank. As a result of the merger, Northern Empire will cease to exist as a separate corporation, and Sonoma may cease to exist as a separate financial institution.

Immediately after the merger, based on shares of Sterling common stock outstanding as of December 31, 2006, of 42,042,740, former Northern Empire shareholders are expected to own approximately 18% of the outstanding shares of Sterling common stock as a result of the issuance of shares of Sterling common stock to the former Northern Empire shareholders. We expect the merger of Northern Empire and Sterling to be completed by no later than April 2, 2007, after which Northern Empire and Sterling would need to mutually agree to extend the closing date of the

merger.

After careful consideration, the boards of directors of Sterling and Northern Empire unanimously approved and adopted the merger agreement. The Sterling and Northern Empire boards of directors unanimously recommend that the holders of Sterling and Northern Empire common stock, respectively, vote **FOR** approval of the merger agreement.

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Under the terms of the merger agreement, its approval requires the affirmative vote, in person or by proxy, of a majority of the votes cast at the special meeting of Sterling. In addition, approval of the merger agreement requires the affirmative vote, in person or by proxy, of a majority of the outstanding shares of Northern Empire common stock. See the section entitled "The Merger Agreement" Voting Agreements.

Our boards of directors recommend that you vote for the merger (Pages 36 and 47)

The Sterling and Northern Empire boards of directors believe the merger is in the best interests of their respective shareholders. The Sterling board and Northern Empire board have each, by unanimous votes of their members, approved the merger agreement and the transactions contemplated thereby and unanimously recommend that their respective shareholders vote FOR the approval of the merger agreement. In approving and adopting the merger agreement and making their recommendations, the Sterling and Northern Empire boards of directors consulted with their respective senior management as well as their financial and legal advisors and considered a number of strategic, financial and other considerations referred to under the sections entitled "The Merger" Recommendation of the Sterling Board of Directors and Reasons of Sterling for the Merger and "The Merger" Recommendation of the Northern Empire Board of Directors and Reasons of Northern Empire for the Merger.

Our financial advisors say the merger consideration is fair from a financial point of view (Pages 39 and 48 and Appendices B and C)

In connection with the proposed merger, Northern Empire's board of directors considered a written opinion, dated September 15, 2006 from its financial advisor, Sandler O'Neill, that the consideration to be received by Northern Empire shareholders in the merger was fair from a financial point of view to the Northern Empire shareholders. The opinion was updated as of January 10, 2007. The full text of the written opinion of Sandler O'Neill, as updated, is attached as Appendix B to this document. You are urged to read the opinion carefully and in its entirety for a description of the procedures followed, matters considered and limitations on the review undertaken. The opinion does not constitute a recommendation to any shareholder as to how they should vote or act on any matter relating to the merger.

In connection with the proposed merger, Sterling's board of directors considered a written opinion, dated September 17, 2006 from its financial advisor, KBW, that the consideration to be received by Northern Empire shareholders in the merger was fair from a financial point of view to Sterling and its shareholders. The opinion was updated as of January 10, 2007. The full text of the written opinion of KBW, as updated, is attached as Appendix C to this document. You are urged to read the opinion carefully and in its entirety for a description of the procedures followed, matters considered and limitations on the review undertaken. The opinion does not constitute a recommendation to any shareholder as to how they should vote or act on any matter relating to the merger.

Consideration to be received in the merger (Page 53)

At the effective time, by virtue of the merger and without any action on your part, each share of Northern Empire common stock that is issued and outstanding immediately prior to the effective time will be converted into the right to receive 0.8050 shares of Sterling common stock and \$2.71 of cash consideration. Because the market price of Sterling common stock is subject to fluctuation, the value of the shares of Sterling common stock that you receive in the merger may increase or decrease prior to and after the merger. Furthermore, at the effective date of the merger, Northern Empire options to purchase Northern Empire common stock held by Northern Empire employees and directors will be converted into options to purchase Sterling common stock at a fixed exchange ratio of 0.8873. As of January 8, 2007, there were outstanding options to purchase an aggregate of 707,431 shares of Northern Empire common stock at a weighted average exercise price of \$10.80 per share. See the section entitled "The Merger" Interests of Certain Persons in the Merger Stock Options. The shares of Sterling common stock to be received by those persons

deemed to be affiliates of Northern Empire will be subject to certain sale and transfer restrictions. See the section entitled The Merger Agreement Restrictions on Resales by Affiliates. Sterling common stock received by all other Northern Empire shareholders will be unrestricted, publicly tradable stock.

Table of Contents**Northern Empire shareholders will own approximately 18% of the outstanding shares of Sterling common stock after the merger (Page 53)**

The maximum number of shares that will be issued by Sterling in the merger has been fixed at 9,434,960 shares. Based on the number of shares of Sterling common stock and Northern Empire common stock outstanding as of December 31, 2006, Northern Empire shareholders are expected to collectively own up to approximately 18% of the outstanding shares of Sterling common stock after the merger. See the section entitled "The Merger - Consideration to be Received in the Merger."

Stock price information (Page 19)

Sterling common stock is listed on the Nasdaq Global Select Market under the symbol STSA. Northern Empire common stock is traded on The Nasdaq Global Market under the symbol NREB.

The following table sets forth the last reported sale prices per share of Sterling common stock and Northern Empire common stock and the equivalent price per Northern Empire share, giving effect to the merger on (i) September 15, 2006, the last trading day preceding public announcement of the signing of the merger agreement and (ii) January 8, 2007, the latest practicable trading day for which information was available prior to the date of this joint proxy statement/prospectus.

	Sterling Common Stock	Northern Empire Common Stock	Equivalent Price per Northern Empire Share
September 15, 2006	\$ 33.04	\$ 23.98	\$ 29.31
January 8, 2007	\$ 33.47	\$ 29.35	\$ 29.65

The equivalent price per share data for Northern Empire common stock is the sum of (i) the last reported sale price of a share of Sterling common stock on the date indicated in the table multiplied by 0.8050, the number of Sterling shares to be issued in the merger for each outstanding share of Northern Empire common stock, plus (ii) \$2.71, the amount of cash to be paid in the merger for each outstanding share of Northern Empire common stock. Because the price of Sterling common stock at the time of completion of the merger may be higher or lower than the sale price indicated in the table, the actual equivalent price per Northern Empire share received by shareholders at the effective time may be more or less than the equivalent price per Northern Empire share indicated in the table. See the section entitled "Risk Factors - Our stock price can be volatile."

Northern Empire's directors and executive officers have interests in the merger that differ from, or are in addition to, your interests in the merger (Page 57)

You should be aware that some of the directors and executive officers of Northern Empire have interests in the merger that are different from, or are in addition to, the interests of Northern Empire shareholders. These interests include, but are not limited to, the continued employment of and retention benefits payable to certain executive officers after the merger, severance benefits payable to certain executive officers whose employment is not continued after the merger, and the indemnification of former Northern Empire officers and directors by Sterling. The Northern Empire and Sterling boards of directors were aware of these interests and considered them, among other matters, in approving the merger agreement and the transactions contemplated by the merger agreement.

Material United States federal income tax considerations of the merger (Page 54)

The merger will qualify for U.S. Federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code. As a result, we expect that, for U.S. federal income tax purposes, Northern Empire shareholders generally will not recognize any of the gain or loss in their Northern Empire common stock for the shares of Sterling common stock that they receive as a result of the merger but will generally recognize gain, but not loss, equal to the lesser of (i) the excess, if any, of the fair market value of the Sterling common stock and the amount of cash received over the adjusted tax basis in the Northern Empire common stock exchanged in the merger or

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(ii) the amount of cash received in the merger. Any gain recognized may be treated as a dividend or capital gain, depending on the shareholder's particular circumstances.

For further information concerning U.S. federal income tax consequences of the merger, please see the section entitled "The Merger—Material United States Federal Income Tax Considerations of the Merger" beginning on page 54 of this joint proxy statement/prospectus.

Tax matters are very complicated and the consequences of the merger to any particular Northern Empire shareholder will depend on that shareholder's particular facts and circumstances. Northern Empire shareholders are urged to consult their own tax advisors to determine their own tax consequences from the merger.

Following the merger, you will be entitled to receive any dividends that Sterling pays on its common stock (Page 19)

After the merger, you will receive dividends, if any, that Sterling pays on its common stock. Sterling paid quarterly cash dividends consisting of \$0.055 per share on January 13, 2006, \$0.06 per share on April 13, 2006, \$0.065 per share on July 14, 2006, and \$0.07 on October 13, 2006. On October 24, 2006, Sterling issued a press release announcing a quarterly cash dividend of \$0.075 per share of common stock payable to shareholders of record as of December 29, 2006. The dividend is expected to be paid on January 12, 2007.

Accounting treatment (Page 56)

The merger will be accounted for as an acquisition of Northern Empire by Sterling under the purchase method of accounting in accordance with U.S. generally accepted accounting principles.

In order to complete the merger, we must first obtain certain regulatory approvals (Page 54)

In order to complete the merger, Sterling must first obtain the prior written approval of the Federal Reserve Board. The acquisition of Northern Empire is also subject to the receipt of prior approval from the OCC, the FDIC and the WDFI. Applications for prior approval of the merger by the Federal Reserve Board, the OCC, the FDIC and the WDFI were filed on or about December 11, 2006.

Northern Empire shareholders have limited dissenters' rights of appraisal (Page 78)

The shareholders of Northern Empire have dissenters' rights of appraisal under limited circumstances. Under California law, no dissenters' rights are available for shares, such as Northern Empire's, that are listed on the Nasdaq National Market unless there exists with respect to such shares any restriction on transfer imposed by Northern Empire or by any law or regulation, or unless demands for payment are filed with respect to 5% or more of the outstanding shares.

If you dissent from the merger agreement and the conditions outlined above are met, then your shares of Northern Empire will not be exchanged for a combination of shares of Sterling common stock and cash in the merger. Your only right will be to receive the fair value of your common stock as determined by mutual agreement between you and Northern Empire or by appraisal if you are unable to agree. The appraised value may be more or less than the consideration you would receive under the terms of the merger agreement, and will be based upon the value of shares of Northern Empire common stock without giving effect to the merger. If you exercise dissenters' rights, any cash you receive for your Northern Empire shares that results in a gain or loss will be immediately recognizable for federal income tax purposes. You should be aware that submitting a signed proxy card without indicating a vote with respect

to the merger will be deemed a vote FOR the merger agreement and a waiver of your dissenters' rights. A vote AGAINST the merger agreement does not dispense with the other requirements to exercise dissenters' rights under California law. If your shares are held in street name, and you wish to exercise dissenter's rights, it is very important that you instruct the street name holder, in a timely manner, that your shares are to be voted AGAINST the merger or, in the alternative, that you request, in a timely manner, a proxy from your street name holder that enables you to attend the special meeting and vote your shares in person.

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A shareholder electing to dissent from the merger agreement must strictly comply with all procedures required under California law. These procedures are described more fully beginning on page 78 of this joint proxy statement/prospectus under the caption Dissenters' Rights, and a copy of the relevant California statutory provisions regarding dissenters' rights is included as Appendix D to this joint proxy statement/prospectus.

The merger agreement (Page 60)

The merger agreement is described beginning on page 61. The merger agreement is also attached as Appendix A to this document. We urge you to read the merger agreement in its entirety because it contains important provisions governing the terms and conditions of the merger.

Additional conditions to consummation of the merger (Page 67)

In addition to the regulatory approvals, the consummation of the merger depends on a number of conditions being met, including, among others:

- approval of the merger agreement by the requisite vote of the Sterling and Northern Empire shareholders, respectively;

- authorization of the shares of Sterling common stock to be issued in the merger for quotation on the Nasdaq stock market;

- the filing and effectiveness of a registration statement on Form S-4 with the SEC in connection with the issuance of Sterling common stock in the merger;

- absence of any order, injunction, or regulatory prohibition to completion of the merger;

- receipt by each party of an opinion from such party's tax counsel that the merger will qualify as a tax-free reorganization;

- accuracy of the representations and warranties of Northern Empire and Sterling, except those that would not have or are not reasonably likely to have a material adverse effect on Sterling or Northern Empire, respectively;

- performance in all material respects by Northern Empire and Sterling of all obligations required to be performed by each of them under the merger agreement;

- the continued effectiveness of voting agreements entered into by the eleven directors and/or executive officers of Northern Empire and Sonoma: Clement C. Carinalli, Dennis R. Hunter, James B. Keegan, Jr., William E. Geary, Patrick R. Gallaher, Michael Wright, Kevin Carinalli, Deborah A. Meekins, David Titus, Jane M. Baker, and Joann Barton; and

- receipt by Sterling of resignations from each director of Northern Empire and of Sonoma.

Where the law permits, either Sterling or Northern Empire may, but is not obligated to, elect to waive a condition to its obligation to complete the merger. We cannot be certain when (or if) the conditions to the merger will be satisfied or waived, and there is no guarantee that the merger will be completed.

In addition, after Northern Empire's shareholders have approved the merger agreement, we may not amend the merger agreement to reduce the amount or change the form of consideration to be received by the Northern Empire shareholders in the merger without the approval of Northern Empire shareholders as required by law.

We may decide not to complete the merger (Page 69)

Northern Empire and Sterling, by mutual consent, can agree at any time not to complete the merger, even if the shareholders of Northern Empire and/or Sterling have voted to approve the merger agreement. Also, either party can decide, without the consent of the other, not to complete the merger in a number of other situations, including:

if any governmental entity that must grant a required regulatory approval has denied such approval and such denial has become final and nonappealable;

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if any governmental entity of competent jurisdiction has issued a final nonappealable order enjoining or otherwise prohibiting the consummation of the transactions contemplated by the merger agreement, unless the denial or order is due to the failure of the party seeking to terminate the merger agreement to perform or observe the covenants and agreements of that party set forth in the merger agreement;

failure to complete the merger on or before April 2, 2007, unless the failure of the closing to occur by that date is due to the material breach by the party seeking to terminate the merger agreement to perform or observe the covenants or obligations of that party;

if the other party has materially breached any of the covenants, agreements, representations or warranties contained in the merger agreement, and the party seeking to terminate is not then in material breach of any representation, warranty, covenant or other agreement contained in the merger agreement, and the breach is not cured within 30 days following written notice to the party committing the breach, or which breach, by its nature, cannot be cured prior to the closing date; and

if the approval of the shareholders of Sterling or Northern Empire contemplated by the merger agreement is not obtained by reason of the failure to obtain the vote required at the Sterling or Northern Empire special meeting, provided, however, that Northern Empire will not have a right to terminate the merger agreement if failure to obtain the vote required was caused by Northern Empire or a party to a voting agreement entered into in connection with the merger agreement.

Sterling, without the consent of Northern Empire, can terminate:

if the board of directors of Northern Empire fails to recommend to its shareholders the approval of the merger, or changes, or publicly announces its intention to change its recommendation and the shareholders of Northern Empire fail to approve the merger at the Northern Empire special meeting; or

if a tender offer or exchange offer for 25% or more of the outstanding shares of Northern Empire common stock is commenced (other than by Sterling or a subsidiary thereof), and the board of directors of Northern Empire recommends that the shareholders of Northern Empire tender their shares in the tender or exchange offer or otherwise fails to recommend that such shareholders reject the tender offer or exchange offer within a ten-business day period.

Northern Empire, without the consent of Sterling, can terminate:

if the average closing price of Sterling's common stock during a specified period just prior to the closing date is less than \$27.97 and the Sterling common stock price has also declined from a price of \$32.91 per share such that the percentage decline of the Sterling common stock price from \$32.91 reflects underperformance of Sterling's common stock by at least 15% relative to the price performance of a weighted average index of a certain group of financial institution holding companies. However, Sterling would then have the option to avoid the termination by increasing the consideration paid to Northern Empire shareholders, as provided in the merger agreement.

Under some circumstances, either Northern Empire or Sterling will be required to pay a termination fee to the other if the merger agreement is terminated (Page 70)

Northern Empire must pay Sterling a termination fee of \$12.5 million if Sterling terminates the merger agreement and elects to receive the fee as a result of: (i) the Northern Empire board of directors failing to

recommend the approval of the merger or changing or publicly announcing its intention to change its recommendation and the Northern Empire shareholders failing to approve the merger; (ii) Northern Empire breaching its nonsolicitation or related obligations as provided in the merger agreement; or (iii) the board of directors recommending that Northern Empire shareholders tender their shares in a tender or exchange offer or failing to recommend that the Northern Empire shareholders reject such an offer.

Northern Empire must pay Sterling a termination fee of \$3.0 million (which amount may be increased to \$12.5 million in certain circumstances) if Sterling terminates the merger agreement and elects to receive the fee as a result of the willful or intentional material breach by Northern Empire of any of the covenants and agreements or representations or warranties it made in the merger agreement, such that any of its closing

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conditions would not be satisfied by the closing date, and the breach is not cured within 30 days following written notice to Northern Empire, or which breach, by its nature, cannot be cured prior to the closing date; and

Sterling must pay Northern Empire a termination fee of \$3.0 million if Northern Empire terminates the merger agreement and elects to receive the fee as a result of the willful or intentional material breach by Sterling of any of the covenants and agreements or representations or warranties it made in the merger agreement, such that any of its closing conditions would not be satisfied by the closing date, and the breach is not cured within 30 days following written notice to Sterling, or which breach, by its nature, cannot be cured prior to the closing date.

Comparison of Shareholder Rights (Page 75)

The conversion of your shares of Northern Empire common stock into the right to receive shares of Sterling common stock in the merger will result in differences between your rights as a Northern Empire shareholder, which are governed by the California Corporations Code and Northern Empire's articles of incorporation and bylaws, and your rights as a Sterling shareholder, which are governed by the Washington Business Corporation Act and Sterling's amended and restated articles of incorporation and bylaws.

Sterling's Special Meeting (Page 26)

Meeting Information and Vote Requirements

The special meeting of Sterling's shareholders will be held on February 21, 2007, at 10:00 A.M., local time, at the 4th Floor Boardroom, Sterling Financial Corporation, 111 North Wall Street, Spokane, Washington, unless adjourned or postponed. At this meeting, Sterling's shareholders will be asked to:

1. approve the merger agreement;
2. approve any proposal of the Sterling board of directors to adjourn or postpone the special meeting; and
3. act on any other business that may be properly submitted to a vote at the special meeting or any adjournments or postponements of the special meeting.

You may vote at the special meeting if you owned Sterling common stock as of the close of business on January 12, 2007. You may cast one vote for each share of Sterling common stock you owned at that time.

The required quorum for the transaction of business at the special meeting is a majority of the shares of Sterling common stock outstanding on the record date, represented in person or by proxy. For the merger agreement to be approved by Sterling shareholders, a majority of the votes cast in person or by proxy at the special meeting must vote FOR approval of the merger agreement. The affirmative vote of the holders of a majority of the outstanding shares of Sterling common stock present in person or by proxy and voting on the matter may authorize the adjournment or postponement of the special meeting, if necessary, for the purpose of soliciting additional proxies, whether or not a quorum is present. No proxy that is voted against the approval of the merger agreement will be voted in favor of adjournment or postponement to solicit further proxies for that proposal.

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Northern Empire's Special Meeting (Page 30)

Meeting Information and Vote Requirements

The special meeting of Northern Empire's shareholders will be held on February 20, 2007, at 5:00 p.m., local time, at 801 Fourth Street, Santa Rosa, California, unless adjourned or postponed. At this meeting, Northern Empire's shareholders will be asked to:

1. approve the merger agreement;
2. approve any proposal of the Northern Empire board of directors to adjourn or postpone the special meeting; and
3. act on any other business that may be properly submitted to a vote at the special meeting or any adjournments or postponements of the special meeting.

You may vote at the special meeting if you owned Northern Empire common stock as of the close of business on January 12, 2007. You may cast one vote for each share of Northern Empire common stock you owned at that time.

Approval of the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares of Northern Empire common stock. The affirmative vote of the holders of a majority of the outstanding shares of Northern Empire common stock present in person or by proxy and voting on the matter may authorize the adjournment or postponement of the special meeting, if necessary, for the purpose of soliciting additional proxies, whether or not a quorum is present. No proxy that is voted against the approval of the merger agreement will be voted in favor of adjournment or postponement to solicit further proxies for that proposal.

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RISK FACTORS

By voting in favor of the merger, you will be choosing to invest in the common stock of Sterling, into which Northern Empire will merge under the terms of the merger agreement. An investment in the combined company's common stock contains a high degree of risk. In addition to the other information included in this joint proxy statement/prospectus, including the matters addressed in the section entitled "Cautionary Statement Regarding Forward-Looking Statements" on page 14, you should carefully consider the matters described below in determining whether to approve the principal terms of the merger agreement.

Risks Related to the Merger

Because the market price of Sterling common stock will fluctuate, Northern Empire shareholders cannot be sure of the value of the merger consideration they will receive.

Upon completion of the merger, each share of Northern Empire common stock will be converted into the right to receive merger consideration equal to 0.8050 shares of Sterling common stock and \$2.71 in cash pursuant to the terms of the merger agreement. Any change in the market price of Sterling common stock prior to completion of the merger will affect the value of the merger consideration that Northern Empire shareholders will receive upon completion of the merger. Accordingly, at the time of the Northern Empire special meeting and prior to the closing of the merger, Northern Empire shareholders will not necessarily know or be able to calculate the actual value of the merger consideration they would receive upon completion of the merger. Although Northern Empire will have the right to terminate the merger agreement in the event of a specified decline in the market value of Sterling common stock and a specified decline relative to the performance of a designated market index unless Sterling elects to increase the aggregate merger consideration (see "The Merger Agreement" "Termination of the Merger Agreement"), neither company is otherwise permitted to terminate the merger agreement or resolicit the vote of Northern Empire's shareholders solely because of changes in the market prices of either company's stock. Stock price changes may result from a variety of factors, including general market and economic conditions, changes in our respective businesses, operations and prospects, and regulatory considerations. Many of these factors are beyond the control of our companies. You should obtain current market prices for shares of Sterling common stock and for shares of Northern Empire common stock.

If Sterling is unable to integrate the combined operations successfully, its business and earnings may be negatively affected.

The merger involves the integration of companies that have previously operated independently. Successful integration of Northern Empire's operations will depend primarily on Sterling's ability to consolidate operations, systems and procedures and to eliminate redundancies and costs. No assurance can be given that Sterling will be able to integrate its post-merger operations without encountering difficulties including, without limitation, the loss of key employees and customers, the disruption of its respective ongoing businesses, or possible differences in standards, controls, procedures and policies. Estimated cost savings and revenue enhancements are projected to come from areas that Sterling's management has identified through the due diligence and integration planning process. The elimination and consolidation of duplicate tasks are projected to result in annual cost savings. If Sterling has difficulties with the integration, or if Sterling's estimates and/or projections are incorrect, it might not fully achieve the economic benefits it expects to result from the merger. In addition, Sterling may experience greater than expected costs or difficulties relating to the integration of the business of Northern Empire and/or may not realize expected cost savings from the merger within the expected time frame. The fairness opinion obtained by Northern Empire from its financial advisor will not reflect changes in circumstances between the date of this joint proxy statement/prospectus and the time the

merger is completed.

The fairness opinions obtained by Sterling and Northern Empire from their financial advisors will not reflect changes in circumstances between the date of this joint proxy statement/prospectus and the completion of the merger.

Changes in the operations and prospects of Sterling or Northern Empire's general market and economic conditions, and other factors that may be beyond the control of Sterling and Northern Empire and on which the

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fairness opinions of KBW and Sandler O'Neill were based, may alter the value of Sterling or Northern Empire or the market prices of shares of Sterling common stock or Northern Empire common stock by the time the merger is completed. The opinions do not speak as of the time the merger will be completed or as of any date other than the dates of such opinions. Because neither Sterling nor Northern Empire currently anticipate asking its respective financial advisor to update its opinion as of the closing, the KBW and Sandler O'Neill opinions, as updated as of the date of this joint proxy statement/prospectus, do not address the fairness of the merger consideration, from a financial point of view, at the time the merger is completed. For a description of the opinion that Sterling received from its financial advisor, please refer to *The Merger Opinion of Sterling's Financial Advisor*. For a description of the opinion that Northern Empire received from its financial advisor, please refer to *The Merger Opinion of Northern Empire's Financial Advisor*. For a description of other factors considered by the board of directors of Sterling in determining to approve the merger, please refer to *The Merger Recommendation of the Sterling Board of Directors and Reasons for the Merger*. For a description of other factors considered by the board of directors of Northern Empire in determining to approve the merger, please refer to *The Merger Recommendation of the Northern Empire Board of Directors and Reasons for the Merger*.

The merger agreement limits Northern Empire's ability to pursue alternatives to the merger.

The merger agreement contains non-solicitation provisions that, subject to limited exceptions, limit Northern Empire's ability to discuss, facilitate or commit to competing third-party proposals to acquire all or a significant part of Northern Empire. Although Northern Empire's board of directors is permitted to take certain actions in connection with the receipt of a competing acquisition proposal if it determines in good faith that the failure to do so would violate its fiduciary duties, taking such actions could, and other actions (such as withdrawing or modifying its recommendation to Northern Empire shareholders that they vote in favor of approval of the merger agreement) would, entitle Sterling to terminate the merger agreement and receive a termination fee of \$12.5 million. See *The Merger Termination of the Merger Agreement and Termination Fee*. These provisions might discourage a potential competing acquiror with an interest in acquiring all or a significant part of Northern Empire from considering or proposing that acquisition even if it were prepared to pay consideration with a higher per share price than that proposed in the merger with Sterling, or might result in a potential competing acquiror proposing to pay a lower per share price to acquire Northern Empire than it might otherwise have proposed to pay.

Northern Empire's directors and executive officers might have additional interests in the merger.

In deciding how to vote on the proposal to approve the merger agreement, you should be aware that Northern Empire's directors and executive officers might have interests in the merger that are different from, or in addition to, the interests of Northern Empire shareholders generally. See the section entitled *The Merger Interests of Certain Persons in the Merger*. Northern Empire's board of directors was aware of these interests and considered them when it recommended approval of the merger agreement.

The merger is subject to the receipt of consents and approvals from regulatory and other authorities that may impose conditions that could have an adverse effect on Sterling.

Before the merger may be completed, various approvals or consents must be obtained from various bank regulatory and other authorities. These authorities may impose conditions on the completion of the merger or require changes to the terms of the merger. While Sterling and Northern Empire do not currently expect that any such conditions or changes would be imposed, there can be no assurance that they will not be, and such conditions or changes could have the effect of delaying completion of the merger or imposing additional costs on or limiting the revenues of Sterling following the merger, any of which might have a material adverse effect on Sterling following the merger.

Risks Related to Sterling Following Completion of the Merger

Unless otherwise specified, references to we, our and us in this subsection mean Sterling and its subsidiaries on a consolidated basis.

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As a bank holding company, our earnings are dependent upon the performance of our bank and non-bank subsidiaries as well as by business, economic and political conditions.

Sterling is a legal entity separate and distinct from its subsidiaries, including Sterling Savings Bank and Golf Savings Bank, although the principal source of Sterling's cash is dividends from Sterling Savings Bank and Golf Savings Bank. Our right to participate in the assets of any subsidiary upon that subsidiary's liquidation, reorganization or otherwise will be subject to the claims of the subsidiary's creditors, which will take priority except to the extent that we may be a creditor with a recognized claim.

Sterling Savings Bank and Golf Savings Bank are also subject to restrictions under federal law that limit the transfer of funds to us or to other affiliates, whether in the form of loans, extensions of credit, investments, asset purchases or otherwise. Such transfers by Sterling Savings Bank or Golf Savings Bank to us or any other affiliate are limited in amount to 10% of each bank's capital and surplus. Furthermore, such loans and extensions of credit are required to be collateralized.

Earnings are impacted by business and economic conditions in the United States and abroad. These conditions include short-term and long-term interest rates, inflation, monetary supply, fluctuations in both debt and equity capital markets, and the strength of the U.S. economy and the local economies in which we operate. Business and economic conditions that negatively impact household or corporate incomes could decrease the demand for our products and increase the number of customers who fail to pay their loans.

We have shifted our focus to commercial banking.

We are increasing our business, consumer and construction lending, while placing an increased emphasis on attracting greater volumes of retail deposits. Business, consumer and construction loans generally produce higher yields than residential mortgage loans. Such loans, however, generally involve a higher degree of risk than the financing of residential real estate, primarily because the collateral may be difficult to liquidate in the event of default. Construction lending is subject to risks such as construction delays, cost overruns, insufficient collateral and the inability to obtain permanent financing in a timely manner. Business banking and construction loans are more expensive to originate than residential mortgage loans. As a result, our operating expenses are likely to increase as we increase our lending in these areas. Additionally, we are likely to experience higher levels of loan losses than we would on residential mortgage loans. There can be no assurance that our emphasis on community banking will be successful or that any increase in the yields on business, consumer and construction loans will offset higher levels of expense and losses on such loans.

We have a high concentration of loans secured by real estate.

Our loans, with limited exceptions, are secured by either real estate, marketable securities or corporate assets. A significant portion of our loans are residential construction loans. At September 30, 2006, approximately 31% of Sterling Savings Bank's total loan portfolio consisted of construction loans, approximately 35% of which were for speculative endeavors. Additionally, at September 30, 2006, 18% of Sterling Savings Bank's loan portfolio consisted of multifamily residential and commercial property loans. A reduction in the demand for new construction or multifamily residential and commercial property loans or a decline in residential or commercial real estate values could have a negative impact on Sterling Savings Bank. At September 30, 2006, \$1.20 billion, or 98% of Sonoma's loans, were secured by real estate as the principal source of collateral. A decline in real estate values could have an adverse effect on our financial condition.

Our ability to continue to originate such loans may be impaired by adverse changes in local and regional economic conditions in the real estate markets, or by acts of nature. Due to the concentration of real estate collateral, these

events could have a material adverse impact on the value of the collateral, resulting in losses or delinquencies. Our residential mortgage and home equity loans are primarily secured by residential property in the Pacific Northwest. As a result, conditions in the real estate markets specifically, and the Pacific Northwest economy generally, can materially impact the ability of our borrowers to repay their loans and affect the value of the collateral securing these loans. Customer demand for loans secured by real estate could be reduced by a weaker economy, an increase in unemployment, a decrease in real estate values or an increase in interest rates.

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The banking authorities have recently adopted final Guidance entitled Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices. The Guidance applies to institutions that have a high concentration of real estate and related loans in their portfolio. The Guidance provides that such institutions may be required in the future to maintain higher capital ratios than other institutions with lower such concentrations. Based on the Guidance as adopted, we may be subject to increased regulatory oversight and guidance. While Sterling believes that the combined company following the merger will be well capitalized under current policies of the banking authorities, we could become subject to higher capital requirements under the Guidance.

Changes in Federal Home Loan Bank (FHLB) borrowing policies may affect our funding ability and financial results.

Sonoma relies upon advances from the FHLB for a large portion of the funding for its loans. FHLB advances are collateralized by loan assets. At September 30, 2006, the total amount of FHLB advances to Sonoma were \$274.4 million. Based upon the current policies of the FHLB, we believe the advances are renewable. Changes in the requirements of the FHLB could materially affect our business and financial statements, and changes in the rates or duration of advances could make them less advantageous.

Competition may adversely affect our ability to attract and retain customers at current levels.

The banking and financial services businesses in our market areas are highly competitive. Competition in the banking, mortgage and finance industries may limit our ability to attract and retain customers. We face competition from other banking institutions, savings banks, credit unions and other financial institutions. We also compete with non-bank financial service companies within the states that we serve and out-of-state financial intermediaries that have opened loan production offices or that solicit deposits in our market areas. There also has been a general consolidation of financial institutions in recent years, which results in new competitors and larger competitors in our market areas.

In particular, our competitors include major financial companies whose greater resources may provide them a marketplace advantage. Areas of competition include interest rates for loans and deposits, efforts to obtain deposits and the range and quality of services provided. Because we have fewer financial and other resources than larger institutions with which we compete, we may be limited in our ability to attract customers. In addition, some of our current commercial banking customers may seek alternative banking sources as they develop needs for credit facilities larger than we can accommodate. If we are unable to attract and retain customers, we may be unable to continue our loan and deposit growth, and our results of operations and financial condition may otherwise be negatively impacted.

We may not be able to successfully implement our internal growth strategy.

We have pursued and intend to continue to pursue an internal growth strategy, the success of which will depend primarily on generating an increasing level of loans and deposits at acceptable risk levels and terms without proportionate increases in non-interest expenses. There can be no assurance that we will be successful in implementing our internal growth strategy. Furthermore, the success of our growth strategy will depend on maintaining sufficient regulatory capital levels and on continued favorable economic conditions in the western region.

There are risks associated with integrating acquisitions.

On July 5, 2006, Sterling completed the acquisition of Golf Savings Bank and on November 30, 2006 Sterling completed the acquisition of FirstBank. Risks associated with the integration of multiple acquisitions within a relatively short time period that may affect Sterling include, without limitation: the businesses might not be combined successfully, or such combination may take longer, be more difficult, time-consuming or costly to accomplish than expected; the expected growth opportunities and cost savings from the acquisitions may not be fully realized or may

take longer to realize than expected; operating costs, customer losses and business disruption following the acquisitions, including adverse effects on relationships with employees, may be greater than expected; adverse governmental or regulatory policies may be enacted; the interest rate environment may further

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compress margins and adversely affect net interest income; results may be adversely affected by continued diversification of assets and adverse changes to credit quality; competition from other financial services companies in Sterling's markets could adversely affect operations; and an economic slowdown could adversely affect credit quality and loan originations.

There are risks associated with potential acquisitions.

We may make opportunistic acquisitions of other banks or financial institutions from time to time that further our business strategy. These acquisitions could involve numerous risks including lower than expected performance or higher than expected costs, difficulties in the integration of operations, services, products and personnel, the diversion of management's attention from other business concerns, changes in relationships with customers and the potential loss of key employees. Any acquisitions will be subject to regulatory approval, and there can be no assurance that we will be able to obtain such approvals. We may not be successful in identifying further acquisition candidates, integrating acquired institutions or preventing deposit erosion or loan quality deterioration at acquired institutions. Competition for acquisitions is highly competitive, and we may not be able to acquire other institutions on attractive terms. There can be no assurance that we will be successful in completing future acquisitions, or if such transactions are completed, that we will be successful in integrating acquired businesses into our operations. Our ability to grow may be limited if we are unable to successfully make future acquisitions.

We are expanding our lending activities in riskier areas.

We have identified commercial real estate, business and consumer loans as areas for increased lending emphasis. While increased lending diversification is expected to increase interest income, commercial real estate, business and consumer loans carry greater risk of payment default than residential real estate loans. As the volume of these loans increases, credit risk increases. In the event of substantial borrower defaults, our provision for loan losses would increase and therefore earnings would be reduced.

Shares eligible for future sale could have a dilutive effect.

Shares of Sterling common stock eligible for future sale, including those that may be issued in the acquisition of Northern Empire, in future acquisitions and any other offering of Sterling common stock for cash, could have a dilutive effect on the market for Sterling common stock and could adversely affect its market price. On July 25, 2006, Sterling filed a shelf registration statement on Form S-3 that provides for the issuance by Sterling of up to \$100 million in Sterling common stock and preferred stock. This will enable Sterling to offer additional shares of common and/or preferred stock for such consideration, on such terms and at such times as is determined by Sterling's board of directors.

There are 60,000,000 shares of Sterling common stock authorized, of which 42,085,948 shares were outstanding as of January 8, 2007, including 4,822,120 shares issued to the shareholders of FirstBank in connection with Sterling's acquisition of FirstBank completed on November 30, 2006. As a result of the merger of Sterling and Northern Empire, a maximum of 9,434,960 shares of Sterling common stock may be issued to Northern Empire shareholders.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This document, including information included or incorporated by reference in this document, may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and Sterling and Northern Empire intend for such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. These

forward-looking statements include, but are not limited to, (i) statements about the benefits of the merger, including future financial and operating results, cost savings, enhancements to revenue and accretion to reported earnings that may be realized from the merger; (ii) statements about our respective plans, objectives, expectations and intentions and other statements that are not historical facts; (iii) statements about expectations regarding the timing of the closing of the merger and the ability to obtain regulatory approvals on a timely basis; and (iv) other statements

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identified by words such as expects, anticipates, intends, plans, believes, seeks, estimates, or words of similar meaning. These forward-looking statements are based on current beliefs and expectations of Sterling's and Northern Empire's respective management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are difficult to predict and beyond Sterling's and Northern Empire's control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

our businesses may not be combined successfully, or the combination may take longer to accomplish than expected;

the growth opportunities and cost savings from the merger may not be fully realized or may take longer to realize than expected;

operating costs, customer losses and business disruption following the merger, including adverse effects of relationships with employees, may be greater than expected;

adverse governmental or regulatory policies may be enacted;

the interest rate environment may change, causing margins to compress and adversely affecting net interest income;

the global financial markets may experience increased volatility;

we may experience adverse changes in our credit rating;

we may experience competition from other financial services companies in our markets; and

an economic slowdown may adversely affect collateral values, credit quality and loan originations.

Additional factors that could cause actual results to differ materially from those expressed in the forward-looking statements are discussed under "Risk Factors" beginning on page 10 and in Sterling's and Northern Empire's reports filed with the SEC.

ALL SUBSEQUENT WRITTEN AND ORAL FORWARD-LOOKING STATEMENTS CONCERNING THE PROPOSED TRANSACTION OR OTHER MATTERS ATTRIBUTABLE TO STERLING OR NORTHERN EMPIRE OR ANY PERSON ACTING ON BEHALF OF STERLING OR NORTHERN EMPIRE ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THE CAUTIONARY STATEMENTS ABOVE. NEITHER STERLING NOR NORTHERN EMPIRE UNDERTAKE ANY OBLIGATION TO UPDATE ANY FORWARD-LOOKING STATEMENTS TO REFLECT CIRCUMSTANCES OR EVENTS THAT OCCUR AFTER THE DATE THE FORWARD-LOOKING STATEMENTS ARE MADE.

Table of Contents**SELECTED CONSOLIDATED FINANCIAL INFORMATION OF STERLING**

Sterling is providing the following information to aid you in your analysis of the financial aspects of the merger. Sterling derived the information as of and for the five years ended December 31, 2005 from its historical audited consolidated financial statements for these fiscal years. The audited consolidated financial information contained herein is the same historical information that Sterling has presented in its prior filings with the SEC. The historical consolidated financial data for the nine months ended September 30, 2006 and 2005 is derived from unaudited consolidated financial statements. However, in the opinion of management, all adjustments, consisting of normal recurring accruals, necessary for a fair presentation at such dates and for such periods have been made.

The operating results for the nine months ended September 30, 2006 are not necessarily indicative of the operating results that may be expected for any future interim period or the year ending December 31, 2006. This information is only a summary, and you should read it in conjunction with Sterling's consolidated financial statements and notes thereto contained in Sterling's 2005 Annual Report on Form 10-K, which has been incorporated by reference into this document. See the section entitled "Where You Can Find More Information" on page 81.

	Nine Months Ended Sept 30,		Years Ended December 31,					
	2006	2005	2005	2004	2003	2002	2001	
	(Dollars in thousands, except per share amounts)							
Statement								
Income	\$ 391,107	\$ 281,896	\$ 387,811	\$ 319,761	\$ 214,727	\$ 197,313	\$ 200,000	
Expense	(201,069)	(122,176)	(171,276)	(122,945)	(89,807)	(96,965)	(110,000)	
Net income	190,038	159,720	216,535	196,816	124,920	100,348	90,000	
Provision for losses on	(13,998)	(10,550)	(15,200)	(12,150)	(10,500)	(11,867)	(10,000)	
Net income								
Provision for								
Loans	176,040	149,170	201,335	184,666	114,420	88,481	70,000	
Net income	46,498	43,350	59,569	47,799	33,735	29,080	20,000	
and acquisition	(191)	0	0	(4,835)	(792)	0	0	
Provision of								
and core								
Intangibles	(1,697)	(1,667)	(2,222)	(2,222)	(262)	(644)	(1,000)	
Litigation	(245)	(189)	(179)	(141)	(600)	(1,100)	(1,000)	
Interest expenses	(144,398)	(121,992)	(167,880)	(141,172)	(92,910)	(79,199)	(60,000)	
Income before income	76,007	68,672	90,623	84,095	53,591	36,618	20,000	
Tax provision	(24,321)	(22,883)	(29,404)	(27,790)	(18,678)	(11,031)	(10,000)	
Net income	\$ 51,686	\$ 45,789	\$ 61,219	\$ 56,305	\$ 34,913	\$ 25,587	\$ 10,000	

per share:	\$	1.45	\$	1.32	\$	1.77	\$	1.66	\$	1.45	\$	1.19	\$
		1.44		1.31		1.75		1.62		1.42		1.16	
tends													
per share	\$	0.195	\$	0.050	\$	0.105	\$	0.000	\$	0.000	\$	0.000	\$
d average													
tstanding:													
		35,645,887		34,581,606		34,633,952		33,931,509		23,980,113		21,496,008	
		35,992,764		35,033,011		35,035,029		34,708,794		24,590,172		22,115,723	
l Ratios:													
ue per share	\$	16.44	\$	14.39	\$	14.54	\$	13.65	\$	10.21	\$	9.38	\$
n average													
		0.85%		0.88%		0.87%		0.88%		0.88%		0.80%	
n average													
ers equity		12.9%		12.5%		12.4%		13.2%		14.4%		13.9%	
ers equity to													
ts		6.8%		7.4%		6.7%		6.8%		5.9%		5.8%	
g efficiency		61.9%		61.0%		61.7%		60.7%		59.6%		62.5%	
est margin		3.29%		3.27%		3.28%		3.32%		3.35%		3.37%	
orming assets													
assets		0.21%		0.17%		0.11%		0.20%		0.50%		0.59%	

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Nine Months
Ended Sept 30,
2006 2005 2005 2004 2003 2002 2001
(Dollars in thousands, except per share amounts)

Statistical Data:

Number of:

Employees (full-time equivalent)	2,100	1,770	1,789	1,624	1,121	953	890
Full service branches	145	138	140	135	86	79	77

Nine Months Ended
September 30,
2006 2005 2005 2004 2003 2002 2001
(Dollars in thousands, except per share amounts)

Reported net income	\$ 51,686	\$ 45,789	\$ 61,219	\$ 56,305	\$ 34,913	\$ 25,587	\$ 16,188
Add back: goodwill amortization net of tax(1)	0	0	0	0	0	0	2,538

Total	\$ 51,686	\$ 45,789	\$ 61,219	\$ 56,305	\$ 34,913	\$ 25,587	\$ 18,726
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Basic earnings per share:

Reported net income	\$ 1.45	\$ 1.32	\$ 1.77	\$ 1.66	\$ 1.45	\$ 1.19	\$ 0.81
Goodwill amortization	0.00	0.00	0.00	0.00	0.00	0.00	0.13

Adjusted net income	\$ 1.45	\$ 1.32	\$ 1.77	\$ 1.66	\$ 1.45	\$ 1.19	\$ 0.94
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Diluted earnings per share:

Reported net income	\$ 1.44	\$ 1.31	\$ 1.75	\$ 1.62	\$ 1.42	\$ 1.16	\$ 0.79
Goodwill amortization	0.00	0.00	0.00	0.00	0.00	0.00	0.13

Adjusted net income	\$ 1.44	\$ 1.31	\$ 1.75	\$ 1.62	\$ 1.42	\$ 1.16	\$ 0.92
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September 30,
2006 2005 2005 2004 2003 2002 2001
(Dollars in thousands)

Balance Sheet Data:

Assets	\$ 8,912,717	\$ 6,796,048	\$ 7,558,928	\$ 6,942,224	\$ 4,279,321	\$ 3,507,021	\$ 3,038,000
Receivable, net	6,240,512	4,287,684	4,885,916	4,251,877	2,906,426	2,390,422	2,109,000
Age-backed securities	1,746,734	1,798,849	1,960,582	2,036,920	983,736	743,610	617,000
Loans	201,870	166,154	167,957	167,665	89,448	86,558	76,000
Investments	5,953,767	4,390,757	4,806,301	3,863,296	2,455,076	2,014,096	1,853,000
Seattle advances	1,373,513	1,266,874	1,443,462	1,635,933	1,026,031	874,515	633,000
Other	623,612	461,594	611,676	780,012	363,137	249,769	218,000

the repurchase							
ents and funds							
ed							
orrowings	237,222	110,683	110,688	131,822	137,998	127,682	127,682
olders equity	608,721	499,683	506,685	469,844	250,348	203,656	165,000
Ratios(2):							
o risk-weighted							
	10.9%	11.1%	10.5%	N/A	N/A	N/A	N/A
Savings Bank	10.7%	10.9%	10.2%	10.7%	10.9%	11.0%	11.0%
Savings Bank	11.3%	N/A	N/A	N/A	N/A	N/A	N/A
o risk-weighted							
	9.9%	10.0%	9.5%	N/A	N/A	N/A	N/A
Savings Bank	9.7%	9.8%	9.2%	9.7%	9.9%	10.0%	10.0%
Savings Bank	10.7%	N/A	N/A	N/A	N/A	N/A	N/A
verage (to average)							
	8.1%	7.7%	7.4%	N/A	N/A	N/A	N/A
Savings Bank	8.1%	7.4%	7.2%	6.6%	7.4%	7.6%	7.6%
Savings Bank	5.9%	N/A	N/A	N/A	N/A	N/A	N/A

- (1) Sterling adopted SFAS No. 142 Goodwill and Intangible Assets on January 1, 2002. The tabular presentation reflects retroactive application of SFAS No. 142, even though SFAS No. 142 by its terms applies prospectively.
- (2) Sterling did not have regulatory capital ratio requirements prior to its conversion to a bank holding company. Golf Savings Bank's capital ratios have not been disclosed for periods prior to Sterling's acquisition of Golf Savings Bank in July 2006.

Table of Contents**SELECTED CONSOLIDATED FINANCIAL INFORMATION OF NORTHERN EMPIRE**

Northern Empire is providing the following information to aid you in your analysis of the financial aspects of the merger. Northern Empire derived the information as of and for the five years ended December 31, 2005 from its historical audited consolidated financial statements for these fiscal years. The audited consolidated financial information contained herein is the same historical information that Northern Empire has presented in its prior filings with the SEC. The historical consolidated financial data for the nine months ended September 30, 2006 and 2005 is derived from unaudited consolidated financial statements. However, in the opinion of management, all adjustments, consisting of normal recurring accruals, necessary for a fair presentation at such dates and for such periods have been made.

The operating results for the nine months ended September 30, 2006 are not necessarily indicative of the operating results that may be expected for any future interim period or the year ending December 31, 2006. This information is only a summary, and you should read it in conjunction with Northern Empire's consolidated financial statements and notes thereto contained in Northern Empire's 2005 Annual Report on Form 10-K, which has been incorporated by reference into this document. See the section entitled "Where You Can Find More Information" on page 81.

	Nine Months Ended Sept 30,		Years Ended December 31,					
	2006	2005	2005	2004	2003	2002	2001	
	(Dollars in thousands, except per share amounts)							
Statement								
Income	\$ 69,567	\$ 54,101	\$ 74,338	\$ 54,402	\$ 44,732	\$ 41,456	\$ 41,456	\$ 41,456
Expense	(33,293)	(20,120)	(28,646)	(15,286)	(13,924)	(15,841)	(15,841)	(15,841)
Net income	36,274	33,981	45,692	39,116	30,808	25,615	25,615	25,615
Provision for losses on	(1,400)	(1,650)	(2,250)	(1,550)	(900)	(840)	(840)	(840)
Net income								
Provision for								
Loans	34,874	32,331	43,442	37,566	29,908	24,775	24,775	24,775
Net income	3,550	3,198	4,392	2,862	2,894	2,334	2,334	2,334
Net expenses	(15,397)	(14,085)	(18,514)	(16,640)	(14,165)	(11,678)	(11,678)	(11,678)
Before income								
Tax provision	23,027	21,444	29,320	23,788	18,637	15,431	15,431	15,431
	(9,346)	(8,806)	(12,073)	(9,468)	(7,366)	(6,096)	(6,096)	(6,096)
Income	\$ 13,681	\$ 12,638	\$ 17,247	\$ 14,320	\$ 11,271	\$ 9,335	\$ 9,335	\$ 9,335
per share:								
	\$ 1.25	\$ 1.16	\$ 1.58	\$ 1.33	\$ 1.10	\$ 0.92	\$ 0.92	\$ 0.92
	1.21	1.11	1.52	1.18	0.97	0.81	0.81	0.81
	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

dividends								
per share								
weighted average								
outstanding:	10,933,702	10,890,334	10,896,884	10,780,141	10,202,012	10,150,714	10,121,000	10,121,000
	11,310,776	11,366,085	11,370,323	12,181,860	11,671,815	11,534,279	11,030,000	11,030,000
Key Ratios:								
book value per share	\$ 11.10	\$ 9.41	\$ 9.83	\$ 8.27	\$ 6.45	\$ 5.29	\$ 5.29	\$ 5.29
return on average	1.40%	1.45%	1.47%	1.49%	1.52%	1.50%	1.50%	1.50%
return on average								
total return to equity	15.8%	17.4%	17.3%	18.2%	18.8%	18.9%	18.9%	18.9%
total return to equity to								
assets	8.9%	8.4%	8.7%	8.3%	7.8%	7.8%	7.8%	7.8%
operating efficiency	36.0%	37.9%	37.0%	39.6%	42.0%	41.8%	41.8%	41.8%
net interest margin	3.79%	4.01%	3.99%	4.20%	4.25%	4.23%	4.23%	4.23%
return on assets								
return on assets	0.04%	0.09%	0.05%	0.10%	0.15%	0.44%	0.44%	0.44%
Other Data:								
number of:								
employees (full-time)	184	166	172	153	142	128	128	128
branch offices	12	11	11	8	7	7	7	7

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	September 30, 2006	September 30, 2005	September 30, 2005	December 31, 2004	December 31, 2003	December 31, 2002	December 31, 2001
(Dollars in thousands)							
Balance Sheet Data:							
Total assets	\$ 1,365,356	\$ 1,217,101	\$ 1,231,734	\$ 1,080,924	\$ 848,226	\$ 689,380	\$ 561,004
Loans receivable, net	1,210,855	1,051,476	1,090,772	938,104	733,857	586,461	466,529
Investments	16,289	62,194	62,385	10,356	6,758	3,557	1,760
Deposits	962,121	898,554	888,027	791,025	658,320	577,585	502,137
FHLB San Francisco advances	274,351	210,389	230,379	191,912	119,211	54,776	11,802
Shareholders' equity	121,506	102,675	107,307	89,878	67,533	53,738	44,297
Capital Ratios:							
Total (to risk-weighted assets)							
Northern Empire Bancshares	11.9%	12.2%	12.2%	12.1%	11.7%	11.6%	12.1%
Sonoma National Bank	10.9%	11.0%	11.1%	10.8%	11.4%	11.5%	12.1%
Tier I (to risk-weighted assets)							
Northern Empire Bancshares	10.8%	11.1%	11.0%	11.1%	10.6%	10.3%	10.9%
Sonoma National Bank	9.8%	9.9%	9.9%	9.7%	10.3%	10.3%	10.8%
Tier I leverage (to average assets)							
Northern Empire Bancshares	9.0%	8.5%	8.8%	8.6%	8.4%	7.9%	8.0%
Sonoma National Bank	8.2%	7.6%	7.9%	7.6%	8.2%	7.8%	8.0%

MARKET PRICE DATA AND DIVIDEND INFORMATION**Comparative Market Price Information**

The following table presents trading information for Sterling common stock on the Nasdaq Global Select Market System and Northern Empire common stock on the Nasdaq Global Market System on September 15, 2006, the last trading day prior to the announcement of the signing of the merger agreement, and on January 8, 2007, the latest practicable trading day for which information was available prior to the date of this joint proxy statement/prospectus.

	Closing Sales Price
Sterling	Northern Empire Equivalent(1)

**Northern
Empire**

Price per share:

September 15, 2006	\$ 33.04	\$ 23.98	\$ 29.31
January 8, 2007	\$ 33.47	\$ 29.35	\$ 29.65

- (1) The equivalent price per share data for Northern Empire common stock is the sum of (i) the last reported sale price of a share of Sterling common stock on September 15, 2006 multiplied by 0.8050, the number of Sterling shares to be issued in the merger for each outstanding share of Northern Empire common stock, plus (ii) \$2.71, the amount of cash to be paid in the merger for each outstanding share of Northern Empire common stock.

You should obtain current market quotations for Sterling and Northern Empire common stock. The market price of Sterling common stock will likely fluctuate between the date of this document and the date on which the merger is completed and after the merger. Because the market price of Sterling common stock is subject to fluctuation, the value of the shares of Sterling common stock that you receive in the merger may increase or decrease prior to and after the merger.

Historical Market Prices and Dividend Information***Sterling***

Sterling common stock is listed on the Nasdaq Global Select Market System under the symbol STSA. As of January 8, 2007, there were 42,085,948 outstanding shares of Sterling common stock held by approximately 2,021 shareholders of record.

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The board of directors of Sterling from time to time evaluates the payment of cash dividends. If the merger is completed, dividends will be paid only as and when declared by the Sterling board of directors. The timing and amount of any future dividends will depend upon earnings, cash and capital requirements, the financial condition of Sterling and its subsidiaries, applicable government regulations and other factors deemed relevant by Sterling's board of directors. Sterling has paid the following cash dividends:

Date Paid	Per Share Amount	Total
October 2005	\$ 0.050	\$ 1.7 million
January 2006	0.055	1.9 million
April 2006	0.060	2.1 million
July 2006	0.065	2.3 million
October 2006	0.070	2.6 million

On October 24, 2006, Sterling announced a quarterly cash dividend of \$0.075 per share of common stock payable to shareholders of record as of December 29, 2006. The dividend is expected to be paid on January 12, 2007.

Northern Empire

Since May 2005, Northern Empire common stock has been listed on the Nasdaq Global Market System under the symbol NREB. Prior to that time, the stock was traded on the over-the-counter market. As of January 10, 2007, there were 11,013,017 outstanding shares of Northern Empire common stock held by approximately 213 holders of record.

Northern Empire last paid a cash dividend in March 1995, and it has paid a 5% stock dividend in each year beginning in 1995 through and including 2006. Two-for-one stock splits were effected in August 1998 and in December 2003. If the merger is not completed, shareholders of Northern Empire will continue to receive dividends only as and when declared by the Northern Empire board of directors. The timing and amount of any future dividends by Northern Empire will depend upon earnings, cash requirements, capital requirements, the financial condition of Northern Empire and its subsidiaries, applicable government regulations and other factors deemed relevant by Northern Empire's board of directors.

Sterling and Northern Empire Quarterly Stock Price and Dividend Paid Information.

The following table sets forth for the calendar quarters indicated, the high and low sales prices per share of Sterling and Northern Empire common stock, as reported on the NASDAQ Global Select Market System and the NASDAQ Global Market System, respectively, as well as historical cash dividends paid during the same period.

	Sterling Common Stock			Northern Empire Common Stock		
	High	Low	Dividends	High	Low	Dividends
2006						
Quarter ended December 31	\$ 35.04	\$ 31.68	\$ 0.075	\$ 30.49	\$ 27.24	\$ 0.000
Quarter ended September 30	33.78	29.50	0.070	28.51	22.99	0.000
Quarter ended June 30	32.35	28.31	0.065	25.65	22.80	0.000
Quarter ended March 31	29.91	24.50	0.060	25.15	22.02	0.000

2005

Quarter ended December 31	26.78	21.86	0.055	26.43	21.57	0.000
Quarter ended September 30	27.39	21.66	0.050	29.71	22.76	0.000
Quarter ended June 30	25.12	21.69	0.000	29.65	23.13	0.000
Quarter ended March 31	26.75	23.36	0.000	24.72	19.55	0.000

2004

Quarter ended December 31	27.50	23.26	0.000	21.32	19.08	0.000
Quarter ended September 30	23.87	20.45	0.000	20.41	17.91	0.000
Quarter ended June 30	22.57	19.05	0.000	20.85	18.14	0.000
Quarter ended March 31	23.61	20.12	0.000	19.00	15.03	0.000

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UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The following unaudited pro forma balance sheet combines the historical balance sheet of Sterling and the historical balance sheet of Northern Empire giving effect to the consummation of the merger as if the merger had become/been effective as of September 30, 2006, and giving effect to the related pro forma adjustments described in the accompanying notes to the unaudited pro forma condensed consolidated financial information.

The following unaudited pro forma statements of income for the nine months ended September 30, 2006 and the year ended December 31, 2005 combine the historical statements of income of Sterling and Northern Empire giving effect to the merger as if the merger had become effective at the beginning of the periods presented, and giving effect to the related pro forma adjustments described in the accompanying notes to the unaudited pro forma condensed consolidated financial information. This unaudited pro forma condensed consolidated financial information includes various estimates and may not necessarily be indicative of the financial position or results of operations that would have occurred if the merger had been consummated on the date or at the beginning of the periods indicated or which may be obtained in the future.

The unaudited pro forma condensed consolidated financial information should be read in conjunction with and is qualified in its entirety by reference to the historical financial statements and related notes thereto of Sterling and of Northern Empire incorporated by reference herein.

We anticipate that the merger will provide the combined company with financial benefits that include reduced operating expenses. The pro forma information, while helpful in illustrating the financial characteristics of the combined company under one set of assumptions, does not reflect the benefits of expected cost savings or opportunities to earn additional revenue and, accordingly, does not attempt to predict or suggest future results. It also does not necessarily reflect what the historical results of the combined company would have been had our companies been combined during these periods.

The unaudited pro forma balance sheet as of September 30, 2006 and the unaudited pro forma statements of income for the nine months ended September 30, 2006 and the year ended December 31, 2005 do not reflect Sterling's acquisition of FirstBank on November 30, 2006, or Golf Savings Bank prior to its acquisition on July 5, 2006. Separate financial information for FirstBank, or for Golf Savings Bank prior to its acquisition on July 5, 2006, is not included in or incorporated by reference in this proxy statement/prospectus. The following sets forth unaudited selected financial information regarding FirstBank, derived from financial statements of FirstBank for the period ended September 30, 2006. The pro forma condensed consolidated financial information with respect to Sterling and Northern Empire should be read in conjunction with the following selected information for FirstBank.

**FirstBank
(Unaudited)**

	September 30, 2006 (in thousands)
Loans receivable, net	\$671,157
Total assets	\$884,167
Deposits	\$633,418
Shareholders' Equity	\$82,764

**For the Six Months
Ended September 30,
2006
(in thousands)**

Interest income	\$31,088
Net interest income	\$18,253
Net income	\$4,965

Table of Contents***Unaudited Pro Forma Condensed Consolidated Balance Sheet***

		September 30, 2006		
	Sterling(1)	Northern Empire	Pro Forma Adjustments	Pro Forma Combined(1)
		(Dollars in thousands)		
Assets:				
Cash and due from banks	\$ 144,975	\$ 117,208	\$ (9,676)(a)	\$ 252,507
Mortgage-backed securities	1,746,734	0		1,746,734
Investments	201,870	16,289		218,159
Loans receivable, net	6,359,918	1,210,855		7,570,773
Goodwill	144,861	0	205,607(b)	350,468
Other intangible assets	16,634	0	12,718(c)	29,352
Other assets	297,725	21,004		318,729
Total assets	\$ 8,912,717	\$ 1,365,356	\$ 208,649	\$ 10,486,722
Liabilities:				
Deposits	\$ 5,953,767	\$ 962,121	\$ (2,880)(d)	\$ 6,913,008
Advances from FHLB	1,373,513	274,351		1,647,864
Securities sold subject to repurchase agreements and funds purchased	623,612	0		623,612
Other borrowings	237,222	0	20,000(a)	257,222
Other liabilities	115,882	7,378	10,985(e)	134,245
Total liabilities	8,303,996	1,243,850	28,105	9,575,951
Shareholders' Equity:				
Common stock	37,024	73,855	(65,040)(f)	45,839
Additional paid-in capital	441,547	7,895	285,340(f)	734,782
Retained earnings	165,399	39,763	(39,763)(f)	165,399
Accumulated other comprehensive income (loss), net of tax effect	(35,249)	(7)	7(f)	(35,249)
Total shareholders' equity	608,721	121,506	180,544	910,771
Total liabilities and shareholders' equity	\$ 8,912,717	\$ 1,365,356	\$ 208,649	\$ 10,486,722

(1) Includes adjustments and operations of Golf Savings Bank since its acquisition in July 2006; does not include adjustments to reflect the acquisition of FirstBank in November 2006.

See accompanying notes to unaudited pro forma condensed consolidated financial information.

Table of Contents***Unaudited Pro Forma Condensed Consolidated Statement of Income***

	For the Nine Months Ended September 30, 2006			
	Sterling(1)	Northern Empire	Pro Forma Adjustments	Pro Forma Combined(1)
	(Dollars in thousands, except shares and per share data)			
Interest income:				
Loans	\$ 321,021	\$ 65,743	\$ 0	\$ 386,764
Mortgage-backed securities	67,444	0	0	67,444
Investments	2,642	3,824	0	6,466
Total interest income	391,107	69,567	0	460,674
Interest expense:				
Deposits	127,372	23,289	540(d)	151,201
Borrowed funds	73,697	10,004	1,050(a)	84,751
Total interest expense	201,069	33,293	1,590	235,952
Net interest income	190,038	36,274	(1,590)	224,722
Provision for losses on loans	(13,998)	(1,400)	0	(15,398)
Net interest income after provision for losses on loans	176,040	34,874	(1,590)	209,324
Other operating income:				
Net gains on sales of securities	0	0	0	0
Fee and other	46,498	3,550	0	50,048
Total non-interest income	46,498	3,550	0	50,048
Non-interest expense				
General and administrative expense:				
Compensation and benefits	82,278	9,505	0	91,783
Occupancy and equipment and other	62,556	5,892	0	68,448
Amortization of intangibles	1,697	0	1,192(c)	2,889
Total non-interest expense	146,531	15,397	1,192	163,120
Income before income tax expense	76,007	23,027	(2,782)	96,252
Income tax expense	(24,321)	(9,346)	1,029(g)	(32,638)
Net income	\$ 51,686	\$ 13,681	\$ (1,753)	\$ 63,614
Earnings per share:				
Basic	\$ 1.45	\$ 1.25		\$ 1.43

Diluted	1.44	1.21	1.41
Weighted average common shares:			
Basic	35,645,887	10,933,702	44,461,198
Diluted	35,992,764	11,310,776	44,972,221

(1) Includes adjustments and operations of Golf Savings Bank since its acquisition in July 2006; does not include adjustments to reflect the acquisition of FirstBank in November 2006.

See accompanying notes to unaudited pro forma condensed consolidated financial information.

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	For the Year Ended December 31, 2005			
	Sterling(1)	Northern Empire	Pro Forma Adjustments	Pro Forma Combined(1)
	(Dollars in thousands, except shares and per share data)			
Interest income:				
Loans	\$ 296,306	\$ 70,621	\$ 0	\$ 366,927
Asset-backed securities	88,682	0	0	88,682
Investments	2,823	3,717	0	6,540
Total interest income	387,811	74,338	0	462,149
Interest expense:				
Deposits	91,990	21,533	2,160(d)	115,683
Borrowed funds	79,286	7,113	1,400(a)	87,799
Total interest expense	171,276	28,646	3,560	203,482
Net interest income	216,535	45,692	(3,560)	258,667
Provision for losses on loans	(15,200)	(2,250)	0	(17,450)
Net interest income after provision for losses on loans	201,335	43,442	(3,560)	241,217
Other operating income:				
Net gains on sales of securities	(57)	0	0	(57)
Fee and other	59,626	4,392	0	64,018
Total non-interest income	59,569	4,392	0	63,961
Non-interest expense				
General and administrative expense:				
Compensation and benefits	93,367	11,078	0	104,445
Occupancy and equipment and other	74,692	7,436	0	82,128
Amortization of intangibles	2,222	0	1,590(c)	3,812
Total non-interest expense	170,281	18,514	1,590	190,385
Income before income tax expense	90,623	29,320	(5,150)	114,793
Income tax expense	(29,404)	(12,073)	1,906(g)	(39,571)
Net income	\$ 61,219	\$ 17,247	\$ (3,244)	\$ 75,222
Earning per share:				
Basic	\$ 1.77	\$ 1.58		\$ 1.73
Diluted	1.75	1.52		1.71
Weighted average common shares:				

Basic	34,633,952	10,896,884	43,449,263
Diluted	35,035,029	11,370,323	44,014,486

(1) Does not include adjustments to reflect the acquisitions of FirstBank or Golf Savings Bank.

See accompanying notes to unaudited pro forma condensed consolidated financial information.

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NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

Basis of Pro Forma Presentation

The pro forma information related to the merger has been prepared in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations and SFAS 142, Goodwill and Other Intangible Assets.

The following is an estimate of the purchase price for Northern Empire, the preliminary purchase price allocation and resulting goodwill:

	(Dollars in thousands)	
Purchase Price:		
Cash	\$	29,676
Stock		287,188
Stock options exchanged		14,862
Total purchase price		331,726
Northern Empire's net assets		121,506
Core deposit intangible		12,718
Premium on time deposits		2,880
Tax effect of fair value adjustments		(2,710)
Accrued transaction costs		(8,275)
Net assets acquired		126,119
Goodwill	\$	205,607

The estimated core deposit intangible is projected to amortize as follows:

	Core Deposit Intangible (Dollars in thousands)	Tax Effect of CDI Amortization
2006	\$ (132)	\$ 49
2007	(1,590)	588
2008	(1,590)	588
2009	(1,590)	588
2010	(1,590)	588

2011 and thereafter	(6,227)	2,304
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Pro Forma Adjustments

The unaudited pro forma condensed consolidated financial statements have been adjusted for the following:

- (a) Acquisition financing inflow of \$20.0 million and \$29.7 million outflow for cash portion of purchase price of Northern Empire. Interest expense has been projected at 7%.
- (b) Unidentifiable intangible asset includes transaction costs of \$5.2 million, net of tax.
- (c) Identifiable intangible asset on core deposits amortized straight line over eight years.
- (d) Premium on time deposits amortized to interest expense over two years, \$180,000 per month year one, and \$60,000 per month year two.
- (e) Transaction costs of \$8.3 million consisting of investment banking fees, employee related fees and other direct transaction costs; deferred tax liability of \$4.7 million from core deposit intangible; deferred tax

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liability of \$1.1 million from time deposit premium; and \$3.1 million deferred tax asset on accrued transaction costs.

(f) Issuance of 8.8 million shares of Sterling as part of purchase price for Northern Empire. Share valuation at \$32.58, the average closing price of Sterling's common stock a few days before and after announcement of transaction. Sterling common stock options totaling 683,000 exchanged for all Northern Empire options outstanding for total value of \$14.9 million. Close Northern Empire equity accounts.

(g) Tax effect of: (1) core deposit intangible amortization, (2) deposit premium amortization and, (3) interest expense on acquisition financing.

Comparative Per Share Information

The following is derived from unaudited pro forma condensed consolidated financial information. Pro forma combined amounts multiplied by the exchange ratio of 0.805 equal per equivalent Northern Empire share amounts. This table is a relative comparison of Northern Empire stock and the Sterling stock consideration to be received by Northern Empire shareholders in the merger. This comparison does not account for the value of \$2.71 in per share cash consideration to be received by Northern Empire shareholders.

		Northern	Pro	Per
	Sterling	Empire	Forma	Equivalent
			Combined	Northern
				Empire
				Share
Earnings for the nine months ended September 30, 2006:				
Basic	\$ 1.45	\$ 1.25	\$ 1.43	\$ 1.15
Diluted	1.44	1.21	1.41	1.14
Earnings for the year ended December 31, 2005:				
Basic	1.77	1.58	1.73	1.39
Diluted	1.75	1.52	1.71	1.38
Cash dividends declared per share:				
For the nine months ended September 30, 2006	0.20	0.00	0.15	0.12
For the year ended December 31, 2005	0.11	0.00	0.08	0.07
Book value:				
As of September 30, 2006	16.44	11.10	19.87	15.99
As of December 31, 2005	14.54	9.83	18.52	14.91

THE SPECIAL MEETING OF STERLING SHAREHOLDERS**Date, time, place and purpose of Sterling's special meeting**

The special meeting of Sterling's shareholders will be held at 10:00 am., local time, on February 21, 2007, at the 4th Floor Boardroom, Sterling Financial Corporation, 111 North Wall Street, Spokane, Washington 99201. At the special meeting, the shareholders of Sterling will consider and vote upon (i) approval of the merger of Northern Empire into Sterling, as provided in the merger agreement, which is included as Appendix A; and (ii) approval of any proposal by the Sterling board of directors to adjourn or postpone the special meeting, if necessary, to solicit additional proxies in

favor of the merger agreement.

Pursuant to the merger agreement, Northern Empire will merge with and into Sterling, and Sterling may elect to merge Northern Empire's wholly owned subsidiary, Sonoma, with and into Sterling Savings Bank or to retain it as an independent, wholly owned operating subsidiary of Sterling. We expect to complete the merger of Northern Empire with and into Sterling by no later than April 2, 2007.

All information contained in this joint proxy statement/prospectus with respect to Northern Empire has been supplied by Northern Empire. All information contained in this joint proxy statement/prospectus with respect to Sterling has been supplied by Sterling.

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This joint proxy statement/prospectus is first being sent to holders of Sterling common stock on or about January 17, 2007 and is accompanied by a form of proxy that is being solicited by the Sterling board of directors for use at the special meeting and any adjournment or postponement thereof.

Voting and Proxy Procedure

Shareholders Entitled to Vote.

The close of business on January 12, 2007 was the record date for determining Sterling shareholders entitled to receive notice of and to vote at the special meeting. On January 8, 2007, the latest practicable trading day for which information was available prior to the date of this joint proxy statement/prospectus, there were 42,085,948 shares of Sterling common stock outstanding held by 2,021 holders of record. Each holder of Sterling common stock is entitled to one vote for each share of Sterling common stock in that holder's name on Sterling's books as of the record date on any matter submitted to the vote of the Sterling shareholders at the special meeting.

If you are a beneficial owner of Sterling common stock held of record by a broker, bank or other nominee (*i.e.*, in street name), you will need proof of ownership to be admitted to the special meeting. A recent brokerage statement or letter from a bank or broker are examples of proof of ownership. If you want to vote your shares of Sterling common stock held in street name in person at the special meeting, you will have to get a written proxy in your name from the broker, bank or other nominee who holds your shares.

Voting Your Shares.

If you are the record owner of your shares (*i.e.*, your shares are not held in street name), you can vote your shares using one of the following methods:

Complete and return a written proxy card;

Vote by telephone using the toll-free number shown on the proxy card; or

Vote through the Internet at www.proxyvote.com.

Votes submitted through the Internet or by telephone must be received by 11:59 p.m., Eastern Time, on February 20, 2007. Internet and telephone voting are available 24 hours a day, and if you use one of those methods, you do not need to return a proxy card.

If your shares are held in street name, you must instruct your street name holder regarding how to vote your shares, by following the procedures set forth by your street name holder.

You can also vote in person at the special meeting. Submitting your voting instructions by any of the methods mentioned above will not affect your right to attend the special meeting and vote in person, provided you follow the proxy revocation procedures set forth below or, if your shares are held in street name, you obtain a written proxy in your name from the broker, bank or other street name holder who holds your shares.

Quorum.

The presence, in person or by proxy, of at least a majority of the total number of outstanding shares of Sterling common stock entitled to vote is necessary to constitute a quorum at the special meeting. Abstentions and broker

non-votes will be counted as shares present and entitled to vote at the special meeting for purposes of determining the existence of a quorum.

Proxies; Proxy Revocation Procedures.

The Sterling board of directors solicits proxies so that each shareholder has the opportunity to vote on the proposals to be considered at the special meeting. When a proxy card is returned properly signed and dated, the shares represented thereby will be voted in accordance with the instructions on the proxy card. If a shareholder of record attends the special meeting and wishes to vote in person, he or she may vote by ballot. Where no instructions

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are indicated, proxies will be voted in accordance with the recommendations of the Sterling board of directors. The board recommends a vote:

FOR approval of the merger agreement;

FOR any proposal of the Sterling board of directors to adjourn or postpone the special meeting; and

FOR any other business that may be properly submitted to a vote at the special meeting or any adjournment or postponement of the special meeting.

Sterling shareholders may revoke a proxy at any time by: (i) sending written notice of revocation to the corporate secretary of Sterling prior to the special meeting; (ii) executing and delivering a proxy for the special meeting bearing a later date; or (iii) attending the special meeting and voting in person. Attendance at the special meeting will not automatically revoke a proxy, but a shareholder in attendance may request a ballot and vote in person thereby revoking a prior granted proxy.

Proxies that do not provide the proxy holders with direction in voting on the merger agreement or with respect to adjournments will be voted in favor of the merger agreement and granting authority to adjourn or postpone the special meeting, in accordance with the recommendation of the board of directors of Sterling.

Participants in the Sterling 401(k) Employment Savings and Incentive Plan and Trust.

If you hold shares through the Sterling 401(k) Employment Savings and Incentive Plan and Trust, the proxy card represents a voting instruction to the trustees as to the number of shares in your plan account. Each participant in the Sterling 401(k) Employment Savings and Incentive Plan and Trust Profit Sharing Plan may direct the trustees as to the manner in which shares of Sterling common stock allocated to the participant's plan account are to be voted. Allocated shares for which no voting instructions are received will be voted by the Plan's investment committee. The deadline for returning your voting instructions to the trustees is February 14, 2007.

Quorum and Vote Required.

The required quorum for the transaction of business at the special meeting is a majority of the shares of Sterling common stock outstanding on the record date, represented in person or by proxy. For the merger agreement to be approved by Sterling shareholders, a majority of the votes cast in person or by proxy at the special meeting must vote FOR approval of the merger agreement. As of the record date, the directors and executive officers of Sterling and their affiliates hold 7.4% of the outstanding shares entitled to vote.

The affirmative vote of the holders of a majority of the shares of Sterling common stock present in person or by proxy at the special meeting and voting on the matter may authorize the adjournment or postponement of the special meeting, if necessary, for the purpose of soliciting additional proxies, whether or not a quorum is present. No proxy that is voted against the approval of the merger agreement will be voted in favor of adjournment or postponement to solicit further proxies for that proposal.

Brokers who hold shares of Sterling common stock in street name for a customer who is the beneficial owner of those shares may not give a proxy to vote the customer's shares without specific instructions from the customer. These non-voted shares are referred to as broker non-votes. If your broker holds your Sterling stock in street name, your broker will vote your shares only if you provide instructions on how to vote by completing the voter instruction form sent to you by your broker with this joint proxy statement/prospectus. Abstentions and broker non-votes will be included in determining the presence of a quorum, but will not count toward the shares voting on the proposal to

approve the merger agreement or any proposal to adjourn or postpone the special meeting, and will have the effect of reducing the number of votes required to approve these proposals.

Adjournments

Although it is not anticipated, the special meeting may be adjourned or postponed for the purpose of soliciting additional proxies in favor of the merger agreement. Any adjournment or postponement of the special meeting may be made without notice, other than by an announcement made at the special meeting, by approval of the holders of a majority of the shares of Sterling common stock present in person or represented by proxy at the special meeting,

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whether or not a quorum exists. Any adjournment or postponement of the special meeting for the purpose of soliciting additional proxies will allow Sterling's shareholders who have already sent in their proxies to revoke them at any time prior to their use.

Proxy Solicitation

The accompanying proxy is being solicited by the board of directors of Sterling. Sterling will bear the entire cost of solicitation of proxies from holders of its shares. In addition to the solicitation of proxies by mail, certain officers, directors and employees of Sterling, without extra remuneration, may also solicit proxies in person, by telephone, facsimile or otherwise. Sterling will pay printing, postage and mailing costs for preparation and mailing of the joint proxy statement/prospectus. All other costs related to the proposed merger, including legal and accounting fees, shall be borne by the party incurring such costs. In addition, Sterling has engaged the Altman Group, Inc. to assist in distributing proxy materials and contacting record and beneficial owners of Sterling common stock, and has agreed to pay a fee of \$6,500, including out-of-pocket expenses, for its services to be rendered on behalf of Sterling.

Security Ownership of Management and Certain Beneficial Owners

The following table sets forth information as of December 31, 2006 regarding the shares of Sterling common stock beneficially owned by (i) each person known by Sterling to own beneficially more than 5% of Sterling's common stock; (ii) each director of Sterling; (iii) certain named executive officers of Sterling; and (iv) all directors and named executive officers of Sterling as a group. Except as noted below, each holder has sole voting and investment power with respect to shares of Sterling common stock listed as owned by that person.

Name of Beneficial Owner	Shares of Common Stock Beneficially Owned(1)	Percent of Common Stock(2)
Beneficial owners of more than 5%		
Private Capital Management(3) 8889 Pelican Bay Blvd., Suite 500 Naples, FL 34108	3,138,077	9.0%
Earnest Partners LLC(4) 75 Fourteenth Street, Suite 2300 Atlanta, GA 30309	2,118,655	6.1%
Directors and Executive Officers		
Rodney W. Barnett	65,300(5)	*
Donald N. Bauhofer	30,228(6)	*
William Ike L. Eisenhart	17,450(7)	*
James P. Fugate	26,273(8)	*
Harold B. Gilkey	493,693(9)	1.17%
John M. Harlow	140,126(10)	*
Robert D. Larrabee	37,259(11)	*
Donald J. Lukes	6,622(12)	*
Michael F. Reuling	11,994	
Heidi B. Stanley	258,525(13)	*
William W. Zuppe	222,292(14)	*
All Directors and Executive Officers as a Group (26 persons)	2,618,964(15)	6.09%

* Less than 1%

- (1) In accordance with Rule 13d-3 under the Exchange Act, a person is deemed to be the beneficial owner, for purposes of this table, of any shares of Sterling common stock over which he or she has voting or investment power and of which he or she has the right to acquire beneficial ownership within 60 days of December 31, 2006. The table includes shares owned by spouses, other immediate family members, in trust, shares held in

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retirement accounts or funds for the benefit of the named individuals, and other forms of ownership, over which shares the persons named in the table may possess voting and/or investment power.

- (2) Based on shares outstanding at December 31, 2006, of 42,042,740, plus options included in beneficial ownership.
- (3) Based on Schedule 13G/A filed on February 14, 2006, by Private Capital Management, which states that it has shared voting and dispositive power as to 3,138,077 shares.
- (4) Based on Schedule 13G filed on February 14, 2006, by Earnest Partners LLC, which states that it has shared voting power as to 101,725 shares, sole voting power as to 915,730 shares and sole dispositive power as to 2,118,655 shares.
- (5) Includes 23,000 shares issuable pursuant to stock options exercisable within 60 days of December 31, 2006.
- (6) Includes 22,846 shares issuable pursuant to stock options exercisable within 60 days of December 31, 2006.
- (7) Includes 12,500 shares issuable pursuant to stock options exercisable within 60 days of December 31, 2006.
- (8) Includes 17,000 shares issuable pursuant to stock options exercisable within 60 days of December 31, 2006.
- (9) Includes 200,000 shares issuable pursuant to stock options exercisable within 60 days of December 31, 2006, and 19,621 shares held for Mr. Gilkey's individual account under the 401(k) Plan. Excludes 268,045 shares held by Sterling's Deferred Compensation Plan (as of September 30, 2006) and 11,367 shares (as of December 31, 2006) held by the 401(k) Plan for the benefit of Mr. Gilkey, as to which shares Mr. Gilkey disclaims beneficial ownership.
- (10) Includes 105,250 shares issuable pursuant to stock options exercisable within 60 days of December 31, 2006. Excludes 48,825 shares (as of September 30, 2006) held by Sterling's Deferred Compensation Plan and 7,485 shares (as of December 31, 2006) held by the 401(k) Plan for the benefit of Mr. Harlow, as to which shares Mr. Harlow disclaims beneficial ownership.
- (11) Includes 11,000 shares issuable pursuant to stock options exercisable within 60 days of December 31, 2006.
- (12) Includes 5,000 shares issuable pursuant to stock options exercisable within 60 days of December 31, 2006.
- (13) Includes 201,400 shares issuable pursuant to stock options exercisable within 60 days of December 31, 2006, and 7,481 shares held for Ms. Stanley's individual account under the 401(k) Plan. Excludes 48,237 shares (as of September 30, 2006) held by Sterling's Deferred Compensation Plan and 6,686 shares (as of December 31, 2006) held by the 401(k) Plan for the benefit of Ms. Stanley, as to which shares Ms. Stanley disclaims beneficial ownership.
- (14) Includes 155,000 shares issuable pursuant to stock options exercisable within 60 days of December 31, 2006, and 20,455 shares held for Mr. Zuppe's individual account under the 401(k) Plan. Excludes 184,392 held by Sterling's Deferred Compensation Plan and 10,746 shares (as of December 31, 2006) held by the 401(k) Plan for the benefit of Mr. Zuppe, as to which shares Mr. Zuppe disclaims beneficial ownership.
- (15) In addition to the information supplied in footnotes 1-12, includes 982,347 shares issuable pursuant to stock options exercisable within 60 days of December 31, 2006, and 82,783 shares held in individual accounts under

the 401(k) Plan. Excludes 582,883 shares (as of September 30, 2006) held by Sterling's Deferred Compensation Plan and 47,589 shares (as of December 31, 2006) held by the 401(k) Plan for the benefit of members of the group, as to which shares such members disclaim beneficial ownership.

THE SPECIAL MEETING OF NORTHERN EMPIRE SHAREHOLDERS

Date, time, place and purpose of Northern Empire's special meeting

The special meeting of Northern Empire's shareholders will be held at 5:00 p.m., local time, on February 20, 2007, at 801 Fourth Street, Santa Rosa, California 95404. At the special meeting, the shareholders of Northern Empire will consider and vote upon (i) approval of the merger of Northern Empire into Sterling, as provided in the merger agreement, which is included as Appendix A; and (ii) approval of any proposal by the Northern Empire board of directors to adjourn or postpone the special meeting, if necessary, to solicit additional proxies in favor of the merger agreement.

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Pursuant to the merger agreement, Northern Empire will merge with and into Sterling. The merger agreement also provides that Sterling may elect to merge Sonoma with and into Sterling Savings Bank. We expect to complete the merger of Northern Empire with and into Sterling by no later than April 2, 2007.

When we complete the merger, Northern Empire shareholders will receive a combination of cash and shares of Sterling common stock as merger consideration for each share of Northern Empire common stock they own, as described in *The Merger Consideration to be Received in the Merger*. Sterling common stock received by certain affiliates of Northern Empire will be subject to certain sale and transfer restrictions as described in *The Merger Restrictions on Resales by Affiliates*. Sterling common stock received by all other Northern Empire shareholders will be unrestricted publicly traded stock.

All information contained in this joint proxy statement/prospectus with respect to Northern Empire has been supplied by Northern Empire. All information contained in this joint proxy statement/prospectus with respect to Sterling has been supplied by Sterling.

This joint proxy statement/prospectus is first being sent to holders of Northern Empire common stock on or about January 17, 2007 and is accompanied by a form of proxy that is being solicited by the Northern Empire board of directors for use at the special meeting and any adjournment or postponement thereof.

Voting and Proxy Procedure

Shareholders Entitled to Vote.

The close of business on January 12, 2007 is the record date for determining Northern Empire shareholders entitled to receive notice of and to vote at the special meeting. On January 10, 2007, there were 11,013,017 shares of Northern Empire common stock outstanding held by 213 holders of record. Northern Empire has no other class of voting securities outstanding. Each holder of Northern Empire common stock is entitled to one vote for each share of Northern Empire common stock in that holder's name on Northern Empire's books as of the record date on any matter submitted to the vote of the Northern Empire shareholders at the special meeting.

If you are a beneficial owner of Northern Empire common stock held of record by a broker, bank or other nominee (*i.e.*, in street name), you will need proof of ownership to be admitted to the special meeting. A recent brokerage statement or letter from a bank or broker are examples of proof of ownership. If you want to vote your shares of Northern Empire common stock held in street name in person at the special meeting, you will have to get a written proxy in your name from the broker, bank or other nominee who holds your shares.

Voting Your Shares.

If you are the record owner of your shares (*i.e.*, your shares are not held in street name), you can vote your shares using one of the following methods:

Complete and return a written proxy card;

Vote by telephone using the toll-free number shown on the proxy card; or

Vote through the Internet by following the instructions shown on the proxy card.

Votes submitted through the Internet or by telephone must be received by 11:59 p.m., Eastern Time, on February 19, 2007. Internet and telephone voting are available 24 hours a day, and if you use one of those methods, you do not need

to return a proxy card.

If your shares are held in street name, you must instruct your street name holder regarding how to vote your shares by following the procedures set forth by your street name holder.

You can also vote in person at the special meeting. Submitting your voting instructions by any of the methods mentioned above will not affect your right to attend the special meeting and vote in person, provided you follow the proxy revocation procedures set forth below or, if your shares are held in street name, you obtain a written proxy in your name from the broker, bank or other street name holder who holds your shares.

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Quorum.

The presence, in person or by proxy, of at least a majority of the total number of outstanding shares of Northern Empire common stock entitled to vote is necessary to constitute a quorum at the special meeting. Abstentions and broker non-votes will be counted as shares present and entitled to vote at the special meeting for purposes of determining the existence of a quorum.

Proxies; Proxy Revocation Procedures.

The Northern Empire board of directors solicits proxies so that each shareholder has the opportunity to vote on the proposals to be considered at the special meeting. When a proxy card is returned properly signed and dated, the shares represented thereby will be voted in accordance with the instructions on the proxy card. If a shareholder of record attends the special meeting and wishes to vote in person, he or she may vote by ballot. Where no instructions are indicated, proxies will be voted in accordance with the recommendations of the Northern Empire board of directors. The board recommends a vote:

FOR approval of the merger agreement;

FOR any proposal of the Northern Empire board of directors to adjourn or postpone the special meeting; and

FOR any other business that may be properly submitted to a vote at the special meeting or any adjournment or postponement of the special meeting.

Northern Empire shareholders may revoke a proxy at any time by: (i) sending written notice of revocation to the corporate secretary of Northern Empire prior to the special meeting; (ii) executing and delivering a proxy for the special meeting bearing a later date; or (iii) attending the special meeting and voting in person. Attendance at the special meeting will not automatically revoke a proxy, but a shareholder in attendance may request a ballot and vote in person thereby revoking a prior granted proxy.

Proxies that do not provide the proxy holders with direction in voting on the merger agreement or with respect to adjournments will be voted in favor of the merger agreement and granting authority to adjourn the special meeting, in accordance with the recommendation of the board of directors of Northern Empire. Northern Empire shareholders who provide no instruction with respect to the merger agreement will not be eligible to assert their dissenters' rights.

Participants in the Northern Empire 401(k) Profit Sharing Plan.

If you hold shares through the Northern Empire 401(k) Profit Sharing Plan, the proxy card represents a voting instruction to the trustees as to the number of shares in your plan account. Each participant in the Northern Empire 401(k) Profit Sharing Plan may direct the trustees as to the manner in which shares of Northern Empire common stock allocated to the participant's plan account are to be voted. Allocated shares for which no voting instructions are received will be voted by the trustees in the same proportion as shares for which voting instructions are received.

Vote Required.

Under the terms of the merger agreement, and as required by California law, approval of the merger agreement requires the affirmative vote, in person or by proxy, of a majority of the outstanding shares of Northern Empire common stock. As of the date of this joint proxy statement/prospectus, the eleven directors and/or executive officers of Northern Empire and Sonoma and their affiliates hold 14% of the outstanding shares of Northern Empire common stock entitled to vote. The eleven directors and/or executive officers of Northern Empire and Sonoma have agreed to

vote an aggregate of 14% of Northern Empire's outstanding common stock in favor of the merger agreement. See the section entitled "The Merger Agreement - Voting Agreements." Because approval of the merger agreement requires the affirmative vote of a majority of the outstanding shares of Northern Empire common stock, abstentions and broker non-votes will have the same effect as a vote against the merger.

The affirmative vote of the holders of a majority of the shares of Northern Empire common stock present in person or by proxy may authorize the adjournment or postponement of the special meeting, if necessary, for the purpose of soliciting additional proxies, or for any other reason, whether or not a quorum is present. No proxy that is

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voted against the approval of the merger agreement will be voted in favor of adjournment or postponement for the purpose of soliciting further proxies for the merger proposal.

Adjournments

Although it is not anticipated, the special meeting may be adjourned for the purpose of soliciting additional proxies in favor of the merger agreement. Any adjournment of the special meeting may be made without notice, other than by an announcement made at the special meeting, by approval of the holders of a majority of the shares of Northern Empire common stock present in person or represented by proxy at the special meeting, whether or not a quorum exists. Any adjournment of the special meeting for the purpose of soliciting additional proxies will allow Northern Empire's shareholders who have already sent in their proxies to revoke them at any time prior to their use.

Proxy Solicitation

The accompanying proxy is being solicited by the board of directors of Northern Empire. Northern Empire will bear the entire cost of solicitation of proxies from holders of its shares. In addition to the solicitation of proxies by mail, certain officers, directors and employees of Northern Empire, without extra remuneration, may also solicit proxies in person, by telephone, facsimile or otherwise. Northern Empire will pay printing, postage and mailing costs for preparation and mailing of the joint proxy statement/prospectus. All other costs related to the proposed merger including legal and accounting fees, shall be borne by the party incurring such costs. In addition, Northern Empire intends to engage Mellon Investor Services to assist in distributing proxy materials and contacting record and beneficial owners of Northern Empire common stock. It is anticipated that the fees for such services to be rendered on behalf of Northern Empire will be approximately \$15,000.

Security Ownership of Management

Northern Empire knows of no person who is the beneficial owner of more than 5.0% of its outstanding shares as of December 31, 2006.

The following table sets forth information as of December 31, 2006 regarding the shares of Northern Empire common stock beneficially owned by (i) each director of Northern Empire and/or Sonoma; (ii) each executive officer of Northern Empire and/or Sonoma; and (iii) all directors and executive officers of Northern Empire and Sonoma as a group. Except as noted below, each holder has sole voting and investment power with respect to shares of Northern Empire common stock listed as owned by that person.

Name of Beneficial Owner	Shares of Common Stock Beneficially Owned(1)	Percent of Common Stock
Clement C. Carinalli	189,106	1.72%
Patrick R. Gallaher	181,989(2)	1.65%
William E. Geary	400,453(3)	3.64%
Dennis R. Hunter	330,068(4)	3.00%
James B. Keegan, Jr.	216,280(5)	1.96%
Deborah A. Meekins	393,090(6)	3.57%
David Titus	79,507(7)	0.72%
Kevin Carinalli	290,755(8)	2.64%

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Michael Wright	12,195(9)	0.11%
Joann Barton	76,267(10)	0.69%
Jane M. Baker	38,599(11)	0.35%
All Directors and Executive Officers as a Group (11 persons)	2,208,309	20.05%

(1) In accordance with Rule 13d-3 under the Exchange Act, a person is deemed to be the beneficial owner, for purposes of this table, of any shares of Northern Empire common stock over which he or she has voting or investment power and of which he or she has the right to acquire beneficial ownership within 60 days of

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December 31, 2006. The table includes shares owned by spouses, other immediate family members, in trust, shares held in retirement accounts or funds for the benefit of the named individuals, and other forms of ownership, over which shares the persons named in the table may possess voting and/or investment power.

- (2) Includes 11,812 shares issuable pursuant to stock options exercisable within 60 days of December 31, 2006.
- (3) Includes 27,562 shares issuable pursuant to stock options exercisable within 60 days of December 31, 2006.
- (4) Including 164,577 shares held in trust accounts for which Mr. Hunter serves as a trustee and shares voting and investment powers, but does not have a beneficial interest.
- (5) Includes 39,375 shares issuable pursuant to stock options exercisable within 60 days of December 31, 2006.
- (6) Includes 256,241 shares issuable pursuant to stock options exercisable within 60 days of December 31, 2006.
- (7) Includes 67,703 shares issuable pursuant to stock options exercisable within 60 days of December 31, 2006.
- (8) Includes 12,140 shares issuable pursuant to stock options exercisable within 60 days of December 31, 2006.
- (9) Includes 5,250 shares issuable pursuant to stock options exercisable within 60 days of December 31, 2006.
- (10) Includes 14,602 shares issuable pursuant to stock options exercisable within 60 days of December 31, 2006.
- (11) Includes 22,913 shares issuable pursuant to stock options exercisable within 60 days of December 31, 2006.

THE MERGER

General

The boards of directors of Sterling and Northern Empire have unanimously approved the merger agreement providing for the merger of Northern Empire with and into Sterling, with Sterling being the surviving entity. The merger agreement also provides that Sterling may elect to merge Sonoma with and into Sterling Savings Bank. We expect to complete the merger of Northern Empire with and into Sterling by no later than April 2, 2007.

Background of the Merger

Northern Empire was incorporated as a California corporation on June 8, 1982 for the purpose of becoming a bank holding company of Sonoma. As a bank holding company registered under the Bank Holding Company Act of 1956, Northern Empire is subject to supervision by the Board of Governors of the Federal Reserve System. On April 27, 2000, Northern Empire also elected to become a financial holding company under the Gramm-Leach-Bliley Act of 1999, although it has not engaged in any of the activities permitted to financial holding companies under applicable law and regulations. Northern Empire's sole subsidiary is Sonoma and its activities are the commercial banking activities engaged in through Sonoma and some lending through loan participations with Sonoma. As of September 30, 2006, Northern Empire had total assets of \$1.37 billion, net loans receivable of \$1.21 billion, deposits of \$962.1 million and shareholders' equity of \$121.5 million.

Sonoma was organized as a national banking association on March 27, 1984 and commenced operations on January 25, 1985. It currently has twelve banking offices operating in Sonoma, Marin and Contra Costa Counties, California. Sonoma's primary market area and source of most of its loan business is Sonoma County, the greater Bay

Area in California, and Arizona (mainly in the area surrounding Phoenix). Sonoma has expanded its lending territory for construction loans, commercial real estate loans and loans made under the programs of the SBA. Sonoma has loan production facilities in Phoenix, Arizona and San Francisco, San Rafael, Sacramento, and Walnut Creek, California. A branch in Novato, California, is scheduled to open in the first quarter of 2007. The primary market area for deposit business is Sonoma and Marin Counties.

As part of its analysis of the prospects and banking strategies of Northern Empire and Sonoma, the Northern Empire board of directors has, from time to time, considered the advantages and disadvantages of a combination with another financial institution. Beginning in the fourth quarter of 2005, the board began internal preliminary discussions regarding the specific possibility of combining with another financial institution. At that time, the board requested the assistance of Sandler O'Neill to advise the board concerning a possible combination and to assist the board in moving forward in the most advantageous manner. These discussions centered on the banking environment in which Sonoma operates, including the increased cost of conforming to regulatory and compliance guidelines,

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increased competition in Sonoma's market area for deposits and loans, and the interest rate environment for commercial banks in general. The board considered the importance of operational scale and financial resources in maintaining efficiency to enable Northern Empire to remain competitive over the long term. The board also took into account Sonoma's performance, particularly its low loan loss experience, its consistent growth in earnings and assets, growth without sacrificing quality customer service, its expertise in commercial real estate and SBA lending and its efficiency of operations. The board recognized that a business combination between Northern Empire and another financial institution would be expected to increase value for Northern Empire shareholders by producing a stronger institution with a broader array of products, services and resources, larger lending limits, a more diversified customer base and the possibility of greater liquidity for shareholders.

On January 6, 2006, the board approved the engagement of Sandler O'Neill to advise the board of directors regarding a possible business combination, and an engagement letter with Sandler O'Neill was entered into on that date.

From late January 2006 through mid July 2006, Sandler O'Neill contacted financial institutions, including Sterling, to determine their interest in a possible business combination with Northern Empire. After executing confidentiality agreements, interested parties were provided with confidential information about the financial results and business prospects of Northern Empire.

On March 4, 2006, Sandler O'Neill contacted Harold Gilkey, Sterling's Chairman and Chief Executive Officer, to determine Sterling's interest in submitting an indication of interest in connection with a potential business combination with Northern Empire. On March 4, 2006, a confidentiality agreement was executed with Sterling and Sandler O'Neill provided confidential materials to Sterling. On March 18, 2006, Harold Gilkey and Deborah Meekins, President and Chief Executive Officer of Northern Empire, met and held preliminary discussions regarding a possible transaction.

In early April 2006, Northern Empire executives met with executives of three institutions, not including Sterling, for the purpose of exploring the possibility of a merger transaction. Conversations with these institutions as well as Sterling regarding the possible structure and mechanics of a business combination generally continued until July 2006.

On July 24, 2006, Sterling's board of directors discussed the proposed acquisition of Northern Empire at a regularly scheduled board meeting, and on July 25, 2006, Sterling Savings Bank's board of directors discussed the proposed combination at a regularly scheduled board meeting.

On July 27, 2006, Northern Empire received a written preliminary non-binding indication of interest from Sterling for a consideration mix of approximately 90% stock, 10% cash with a value of approximately \$27 per share based on Sterling's average stock price at that time.

On July 31, 2006, the Northern Empire board met with Sandler O'Neill and Northern Empire's legal counsel, Haines & Lea, to review the pricing and terms of the preliminary non-binding indication of interest. Haines & Lea discussed with the board its fiduciary duties as they relate to a proposal of this kind. After discussion with the board and its counsel, the board determined that the preliminary non-binding expression of interest from Sterling warranted further consideration by Northern Empire.

Sterling retained Keefe, Bruyette & Woods, Inc. as an investment banker in connection with the transaction. KBW first became involved on August 2, 2006, and Sterling entered into an engagement letter with KBW on August 21, 2006. From August 14, 2006 through August 18, 2006, Sterling conducted on-site due diligence of Northern Empire. Sterling also conducted additional due diligence investigation of Northern Empire materials provided to Sterling and its counsel. Following its due diligence investigation of Northern Empire, Sterling determined that it was still interested in an acquisition of Northern Empire.

On August 24, 2006, Sterling's legal counsel delivered a draft of the merger agreement to Haines & Lea. From August 24, 2006 to September 15, 2006, draft versions of the merger agreement were exchanged, reviewed and discussed between the parties, including the Northern Empire directors, Sandler O'Neill and Haines & Lea.

From August 28, 2006 through August 30, 2006, Northern Empire and its representatives performed additional on-site due diligence on Sterling.

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On September 15, 2006, the Northern Empire board met with Sandler O'Neill and Haines & Lea. Prior to this meeting, the proposed definitive merger agreement and related materials between Northern Empire and Sterling had been distributed to the board. During the meeting due diligence reports from Northern Empire management, Sandler O'Neill and Haines & Lea were presented to the board. The board received an extensive presentation from Sandler O'Neill regarding the financial terms of the transaction. Haines & Lea reviewed with the board of directors their fiduciary duties, the terms of the definitive agreement and other relevant documents pertaining to the contemplated transaction. Sandler O'Neill reviewed the fairness of the proposed transaction and delivered its oral opinion, which was subsequently confirmed in writing, that the merger consideration was fair, from a financial point of view, to the holders of Northern Empire common stock. After a thorough discussion of the transaction, the Northern Empire board voted unanimously to approve the definitive agreement, authorize the execution of the definitive agreement and related documents, and recommend that the Northern Empire shareholders approve and adopt the agreement with Sterling.

The Sterling board of directors met on September 17, 2006. Prior to the meeting, the proposed definitive agreement and related materials had been distributed to Sterling's board for its review. During this meeting, Sterling's chief executive officer, chief financial officer and legal counsel summarized the material terms of the proposed transaction, and Sterling's chief executive officer led Sterling's board of directors in a discussion of the merits, risks and the strategic reasons for and against the transaction. The board received an oral opinion from KBW, which was subsequently confirmed in writing, that the consideration offered in the merger is fair, from a financial point of view, to the shareholders of Sterling. After a thorough discussion, Sterling's board of directors unanimously approved the definitive merger agreement and other relevant documents and the contemplated transaction. At the conclusion of the arm's length negotiations between representatives of Sterling and Northern Empire, and pursuant to the resolutions adopted by each company's board of directors, Sterling and Northern Empire entered into the definitive agreement, dated as of September 17, 2006, and publicly announced entry into the definitive agreement in a joint press release dated September 18, 2006.

Recommendation of the Northern Empire Board of Directors and Reasons of Northern Empire for the Merger

The Northern Empire board of directors reviewed and discussed the proposed merger with management and its financial and legal advisors before it unanimously determined that the merger is in the best interests of Northern Empire and the Northern Empire shareholders. The board unanimously recommends that Northern Empire shareholders vote for the approval of the merger agreement and the consummation of the merger and other transactions contemplated by that agreement.

In reaching its determination to approve the merger agreement, the Northern Empire board of directors considered a number of factors. The material factors that the Northern Empire board of directors believes favor the merger include, but are not limited to, the following:

Growth Opportunities. The approximately 90% stock consideration to be received as merger consideration offers Northern Empire shareholders the opportunity to participate in the growth and opportunities of the combined company.

Future Prospects of Northern Empire. Based on its understanding of the business, operations, financial condition, earnings, management and future prospects of Northern Empire, and in consultation with its financial advisor, the Northern Empire board of directors believes that a business combination with Sterling will enable Northern Empire shareholders to participate in a combined company that would have enhanced future prospects compared to those that Northern Empire is likely to achieve on a stand-alone basis. The board believes that a larger company will provide additional products and services to better grow and retain Northern Empire's customers, that the combined, more diversified, customer base will improve and diversify future

revenue sources, and that future earnings prospects will be stronger on a combined basis, in a financial institution with offices in Washington, Oregon, Idaho, Montana and California.

Results of Due Diligence by Northern Empire. The Northern Empire board's understanding of the business, operations, financial condition, earnings, management and future prospects of Sterling, taking into account Northern Empire's due diligence investigation of Sterling, including, but not limited to, debt

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service and other existing financial obligations, the financial obligations to be incurred in connection with the proposed transaction and other likely financial obligations of Sterling and the possible effect of such obligations.

Competitive Issues. The current and prospective economic and competitive environment facing the financial services industry generally, including the continued consolidation in the industry and the increased importance of operational scale and financial resources in maintaining efficiency and remaining competitive over the long term.

Terms of the Merger. The review by the Northern Empire board of directors with its legal and financial advisors of the structure of the merger and the financial and other terms of the merger agreement, including the exchange ratio and cash consideration offered by Sterling.

Complementary Business. The complementary nature of the respective markets, customers and asset/liability mix of Northern Empire and Sterling.

Impact on Constituencies. The economic effects of the proposed transaction on Northern Empire, Sonoma, their employees, depositors, loan and deposit customers, creditors, and other elements of the communities in which Sonoma operates.

Continuity of Operations and Personnel. The likelihood of Sterling retaining key officers and employees and the resulting continuity of banking operations after the merger because Sterling and Sonoma do not have overlapping branches.

Financial Presentations. The reports of Northern Empire's management and the financial presentation by Sandler O'Neill to the Northern Empire board of directors concerning the operations, financial condition and prospects of Sterling and the expected financial impact of the merger on the combined company, including pro forma assets, earnings, deposits and other financial metrics.

Approvals. The likelihood of receiving regulatory approvals in a timely fashion and the likelihood that the merger would be completed.

Value. The value to be received by holders of Northern Empire common stock pursuant to the merger agreement in relation to the historical trading prices of Northern Empire common stock, as compared to other similar transactions of a comparable nature in the view of the board of directors' financial advisors, as well as the possibility of a more active trading market, providing increased liquidity for holders of Sterling common stock.

Cash Dividends. Sterling has for the past six consecutive quarters offered its shareholders a cash dividend. Receiving Sterling stock as consideration in the merger, Northern Empire shareholders would benefit from anticipated future cash dividends paid by Sterling.

Fairness Opinion. The opinion delivered to the Northern Empire board of directors by Sandler O'Neill that, as of the date of the opinion and based upon and subject to the considerations in its opinion, the merger consideration was fair, from a financial point of view, to holders of Northern Empire common stock.

Products & Services. Sonoma's customers would be afforded new or enhanced products and services not previously available, including expanded SBA lending in which Sonoma has substantial expertise and experience. Examples of other enhancements include larger credit relationships, more advanced cash

management services, a broader array of commercial real estate conduits, and all-in-one residential construction loans.

Corporate Values. The Northern Empire board of directors belief that the two companies share a common vision of the importance of customer service and that management and employees of Northern Empire and Sterling possess complementary skills and expertise.

Reorganization. The expectation that the merger will constitute a reorganization under Section 368(a) of the Code.

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In the course of its deliberations regarding the merger, the Northern Empire board of directors also considered the following factors, which the board of directors determined did not outweigh the benefits to Northern Empire and its shareholders expected to be generated by the merger:

Integration Issues. The challenges of combining the businesses, assets and workforces of Northern Empire and Sterling, which could affect our post-merger success, and the ability to achieve anticipated cost savings and other potential synergies, as well as the challenges to Sterling of combining its operations with those of Golf Savings Bank, acquired in July 2006, and FirstBank, announced in June 2006 and pending at the time of the board's deliberations.

Fixed Exchange Ratio. The fixed exchange ratio component of the merger consideration will not adjust to compensate for potential declines in the stock price of Sterling or Northern Empire prior to completion of the merger except under certain circumstances which would require that, among other things, Sterling's common stock decreases in value to a greater extent than a predetermined weighted average index of a certain group of financial institution holding companies specified in the merger agreement.

Insider Interests. The interests of Northern Empire executive officers and directors with respect to the merger apart from their interests as holders of Northern Empire common stock, and the risk that these interests might influence their decision with respect to the merger, as described below in "The Merger" Interests of Certain Persons in the Merger.

Competing Transaction. The risk that the terms of the merger agreement, including provisions relating to the payment of a termination fee under specified circumstances, although required by Sterling as a condition to its willingness to enter into a merger agreement, could have the effect of discouraging other parties that might be interested in a transaction with Northern Empire from proposing such a transaction.

Operational Restrictions. The restrictions contained in the merger agreement on the operation of Northern Empire's business during the period between the signing of the merger agreement and completion of the merger.

Risk of Termination. The possibility that the merger might not be completed and the effect of the resulting public announcement of the termination of the merger agreement on, among other things, the market price of Northern Empire common stock and Northern Empire operating results, particularly in light of the costs incurred in connection with the transaction.

The discussion of the information and factors considered by the Northern Empire board of directors is not exhaustive, but includes all material factors considered by the board. In view of the wide variety of factors considered by the Northern Empire board of directors in connection with its evaluation of the merger and the complexity of these matters, the board did not consider it practical to, nor did it attempt to, quantify, rank or otherwise assign relative weights to the specific factors that it considered in reaching its decision. The Northern Empire board of directors evaluated the factors described above, including asking questions of management and its legal and financial advisors, and reached consensus that the merger was in the best interests of Northern Empire and its shareholders. In considering the factors described above, individual members of the board may have given different weights to different factors. The Northern Empire board of directors considered these factors as a whole, and overall considered them to be favorable to, and to support its determination. It should be noted that this explanation of the Northern Empire board of directors' reasoning and all other information presented in this section is forward-looking in nature and, therefore, should be read in light of the factors discussed under the section entitled "Cautionary Statement Regarding Forward-Looking Statements."

After carefully evaluating the above factors, Northern Empire's board of directors has determined that the merger, the merger agreement and the transactions contemplated thereby are advisable and in the best interests of Northern Empire and its shareholders. The board of directors also determined that the merger agreement and the transactions contemplated thereby are consistent with, and in furtherance of, Northern Empire's and its shareholders' long-term best interests. Accordingly, Northern Empire's board of directors unanimously approved the merger agreement and unanimously recommends that Northern Empire shareholders vote FOR approval of the merger agreement.

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Fairness Opinion of Northern Empire Bancshares Financial Advisor

By letter dated January 6, 2006, Northern Empire retained Sandler O'Neill to act as its financial advisor in connection with a possible business combination with a second party. Sandler O'Neill is a nationally recognized investment banking firm whose principal business specialty is financial institutions. In the ordinary course of its investment banking business, Sandler O'Neill is regularly engaged in the valuation of financial institutions and their securities in connection with mergers and acquisitions and other corporate transactions.

Sandler O'Neill acted as financial advisor to Northern Empire in connection with the proposed merger and participated in certain of the negotiations leading to the merger agreement. At the September 15, 2006 meeting at which Northern Empire's board considered and approved the merger agreement, Sandler O'Neill delivered to the board its oral opinion, subsequently confirmed in writing that, as of such date, the merger consideration was fair to Northern Empire's shareholders from a financial point of view. Sandler O'Neill updated its opinion as of January 10, 2007. **The full text of Sandler O'Neill's updated opinion is attached as Appendix B to this document. The opinion outlines the procedures followed, assumptions made, matters considered and qualifications and limitations on the review undertaken by Sandler O'Neill in rendering its opinion. The description of the opinion set forth below is qualified in its entirety by reference to the opinion. Northern Empire shareholders are urged to read the entire opinion carefully in connection with their consideration of the proposed merger.**

Sandler O'Neill's opinion, as updated, speaks only as of the date of the opinion. The opinion is directed to the Northern Empire board and speaks only to the fairness from a financial point of view of the merger consideration to Northern Empire shareholders. It does not address the underlying business decision of Northern Empire to engage in the merger or any other aspect of the merger and is not a recommendation to any Northern Empire shareholder as to how such shareholder should vote at the special meeting with respect to the merger, or any other matter.

In connection with rendering its September 15, 2006 opinion, Sandler O'Neill reviewed and considered, among other things:

- (1) the merger agreement;
- (2) certain publicly available financial statements and other historical financial information of Northern Empire that Sandler O'Neill deemed relevant;
- (3) certain publicly available financial statements and other historical financial information of Sterling that Sandler O'Neill deemed relevant;
- (4) internal financial projections for Northern Empire for the year ending December 31, 2006 as prepared by and reviewed with senior management of Northern Empire and earnings guidance for the years ended December 31, 2007, 2008 and 2009 as provided by and discussed with the senior management of Northern Empire;
- (5) earnings per share estimates consistent with publicly available estimates for Sterling for the years ending December 31, 2006 and 2007 as discussed with the senior management of Sterling and earnings guidance for the years ended December 31, 2008 and 2009 as provided by and discussed with the senior management of Sterling;
- (6) the pro forma financial impact of the merger on Sterling, based on assumptions relating to transaction expenses, purchase accounting adjustments, cost savings and other synergies determined by the senior managements of Sterling

and Northern Empire;

(7) the publicly reported historical price and trading activity for Northern Empire's and Sterling's common stock, including a comparison of certain financial and stock market information for Northern Empire and Sterling with similar publicly available information for certain other companies the securities of which are publicly traded;

(8) to the extent publicly available, the financial terms of certain recent business combinations in the commercial banking industry;

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(9) the current market environment generally and the banking environment in particular; and

(10) such other information, financial studies, analyses and investigations and financial, economic and market criteria as Sandler O'Neill considered relevant.

Sandler O'Neill also discussed with certain members of the senior management of Northern Empire the business, financial condition, results of operations and prospects of Northern Empire and held similar discussions with certain members of the senior management of Sterling regarding the business, financial condition, results of operations and prospects of both Sterling and the combined entity.

In performing its review, Sandler O'Neill relied upon the accuracy and completeness of all of the financial and other information that was available to it from public sources, that was provided to it by Northern Empire or Sterling or their respective representatives or that was otherwise reviewed by Sandler O'Neill and assumed such accuracy and completeness for purposes of rendering its opinion. Sandler O'Neill further relied on the assurances of senior management of Northern Empire and Sterling that they were not aware of any facts or circumstances that would make any of such information inaccurate or misleading. Sandler O'Neill was not asked to undertake, and did not undertake, an independent verification of any of such information and Sandler O'Neill did not assume any responsibility or liability for the accuracy or completeness thereof. Sandler O'Neill did not make an independent evaluation or appraisal of the specific assets, the collateral securing assets or the liabilities (contingent or otherwise) of Northern Empire or Sterling or any of their subsidiaries, or the collectibility of any such assets, nor was Sandler O'Neill furnished with any such evaluations or appraisals. Sandler O'Neill did not make an independent evaluation of the adequacy of the allowance for loan losses of Northern Empire or Sterling, nor did Sandler O'Neill review any individual credit files relating to Northern Empire or Sterling. Sandler O'Neill assumed, with Northern Empire's consent, that the respective allowances for loan losses for both Northern Empire and Sterling were adequate to cover such losses.

Sandler O'Neill's opinion was necessarily based upon market, economic and other conditions as they existed on, and could be evaluated as of, the date of its opinion. Sandler O'Neill assumed, in all respects material to its analysis, that all of the representations and warranties contained in the merger agreement and all related agreements were true and correct, that each party to such agreements would perform all of the covenants required to be performed by such party under such agreements and that the conditions precedent in the merger agreement had not been waived. Sandler O'Neill also assumed that there had been no material change in Northern Empire's and Sterling's assets, financial condition, results of operations, business or prospects since the date of the last financial statements made available to them, that Northern Empire and Sterling would remain as going concerns for all periods relevant to its analyses, and that the merger would qualify as a tax-free reorganization for federal income tax purposes. Finally, with Northern Empire's consent, Sandler O'Neill relied upon the advice received from its legal, accounting and tax advisors as to all legal, accounting and tax matters relating to the merger agreement and the other transactions contemplated by the merger agreement.

The earnings forecasts and estimates used and relied upon by Sandler O'Neill in its analyses for Northern Empire and Sterling, projections of transaction costs, estimates of purchase accounting adjustments, expected cost savings, and other synergies relating to the merger were reviewed with the senior managements of Northern Empire and Sterling, and such managements confirmed to Sandler O'Neill that they reflected the best currently available estimates and judgments of such managements of the future financial performance of Northern Empire and Sterling, both respectively and related to the combined entity, and Sandler O'Neill assumed that such performances would be achieved. Sandler O'Neill expressed no opinion as to such financial projections or the assumptions on which they were based. Those projections, as well as the other estimates used by Sandler O'Neill in its analyses, were based on numerous variables and assumptions which are inherently uncertain and, accordingly, actual results could vary materially from those set forth in such projections.

Financial Analysis of Sandler O'Neill. The preparation of a fairness opinion is a complex process involving subjective judgments as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. The process, therefore, is not necessarily susceptible to a partial analysis or summary description. Sandler O'Neill believes that its analysis must be considered as a whole and that selecting portions of the factors and analyses considered without considering all factors and analyses, or attempting to ascribe relative weights to some or all such factors and analyses, could create an incomplete view of the

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evaluation process underlying their respective opinions. Also, no company included in the comparative analyses described below is identical to Northern Empire or Sterling and no transaction is identical to the merger. In performing its analysis, Sandler O'Neill also made numerous assumptions with respect to industry performance, business and economic conditions and various other matters, many of which cannot be predicted and are beyond the control of Northern Empire, Sterling and Sandler O'Neill. The analyses performed by Sandler O'Neill are not necessarily indicative of actual values or future results, both of which may be significantly more or less favorable than suggested by such analyses. Sandler O'Neill prepared its analysis solely for purposes of rendering its opinion and provided such analysis to the Northern Empire board at the board's September 15, 2006 meeting. Estimates on the values of companies did not purport to be appraisals or necessarily reflect the prices at which companies or their securities might actually be sold. Such estimates are inherently subject to uncertainty and actual values may be materially different. Accordingly, Sandler O'Neill's analyses do not necessarily reflect the value of Northern Empire's common stock or Sterling's common stock or the prices at which Northern Empire's or Sterling's common stock may be sold at any time. The analyses of Sandler O'Neill and its opinion were among a number of factors taken into consideration by Northern Empire's board in making its determination to adopt the plan of merger contained in the merger agreement and the analyses described below should not be viewed as determinative of the decision of Northern Empire's board or management with respect to the fairness of the merger.

The following is a summary of the material analyses performed by Sandler O'Neill, but is not a complete description of all the analyses underlying Sandler O'Neill's opinion.

Summary of Proposal. Sandler O'Neill reviewed the financial terms of the proposed transaction. Pursuant to the merger agreement, the deal value per share is equal to the sum of (1) \$2.71 cash plus (2) the product of 0.8050 times the Sterling closing price. Based on Sterling's closing price of \$32.97 on September 14, 2006, Sandler O'Neill calculated an implied transaction value of \$29.25 per share. Based upon per-share financial information for Northern Empire for the twelve months ended June 30, 2006, Sandler O'Neill calculated the following ratios:

Transaction Ratios

Transaction price / last 12 months' earnings per share	18.3x
Transaction price / stated book value per share	274%
Transaction price / tangible book value per share	274%
Tangible book premium/core deposits(1)	34.7%
1 Day market premium(2)	21.9%

(1) Core deposits exclude time deposits with account balances greater than \$100,000 and brokered CDs. Tangible book premium/core deposits calculated by dividing the excess of the aggregate transaction value of \$334 million over tangible book value by core deposits.

(2) Based on Northern Empire's closing price of \$24.00 on September 14, 2006

The aggregate transaction value was approximately \$334 million. Sandler O'Neill calculated that Northern Empire shareholders would own approximately 18% of Sterling's common shares outstanding upon consummation of the merger, taking into account the impact of shares to be issued in conjunction with Sterling's acquisition of FirstBank.

Stock Trading History. Sandler O'Neill reviewed the history of the publicly reported trading prices of Northern Empire's and Sterling's common stock.

For the one-year period and three-year period ended September 14, 2006, Sandler O'Neill compared the relative performance of Northern Empire's and Sterling's common stock with the following:

the S&P 500 Index,

the S&P Bank Index,

the NASDAQ Bank Index,

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a Northern Empire comparable peer group(1) a weighted average (by market capitalization) composite of publicly traded comparable regional commercial banks selected by Sandler O'Neill, and

a Sterling comparable peer group(2) a weighted average (by market capitalization) composite of publicly traded comparable western commercial banks selected by Sandler O'Neill.

During the one-year period ended September 14, 2006, Northern Empire generally outperformed its comparable peer group and underperformed the S&P 500 Index, S&P Bank Index and NASDAQ Bank Index. Sterling generally outperformed all of the indices to which it was compared. The relative performances were as follows:

Northern Empire's Stock Performance Since September 13, 2005

	Beginning Index Value September 13, 2005	Ending Index Value September 14, 2006
Northern Empire	100.00%	100.92%
Northern Empire comparable peer group(1)	100.00	99.70
Sterling	100.00	126.76
Sterling comparable peer group(2)	100.00	102.74
S&P 500 Index	100.00	106.91
S&P Bank Index	100.00	112.42
NASDAQ Bank Index	100.00	105.97

During the three-year period ended September 14, 2006, Northern Empire and Sterling generally outperformed all the indices to which they were compared. The relative performances were as follows:

Northern Empire's Stock Performance Since September 12, 2003

	Beginning Index Value September 12, 2003	Ending Index Value September 14, 2006
Northern Empire	100.00%	213.72%
Northern Empire comparable peer group(1)	100.00	141.67
Sterling	100.00	190.48
Sterling comparable peer group(2)	100.00	142.12
S&P 500 Index	100.00	129.22
S&P Bank Index	100.00	133.98
NASDAQ Bank Index	100.00	124.49

(1) Selected Northern Empire comparable regional commercial banks peer group includes American River Bankshares, Bank of Marin, Bank of Commerce Holdings, Capital Corp of the West, Exchange Bank of Santa

Rosa, Farmers & Merchants Bancorp, First Northern Community Bancorp, Heritage Commerce Corp, North Bay Bancorp, North Valley Bancorp, Placer Sierra Bancshares, TriCo Bancshares and Westamerica Bancorp.

- (2) Selected peer group includes Bank of Hawaii Corp., Cathay General Bancorp, Central Pacific Financial Corp., CVB Financial Corp., City National Corp., East West Bancorp Inc., First Republic Bank, Greater Bay Bancorp, Pacific Capital Bancorp, SVB Financial Group, UCBH Holdings Inc. and Umpqua Holdings Corp.

Comparable Company Analysis. Sandler O'Neill used publicly available information to compare selected financial and market trading information for Northern Empire and Sterling to comparable peer groups selected by Sandler O'Neill.

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The selected Northern Empire peer group consisted of the following companies:

American River Bankshares	Heritage Commerce Corp
Bank of Marin	North Bay Bancorp
Bank of Commerce Holdings(1)	North Valley Bancorp
Capital Corp of the West	Placer Sierra Bancshares
Exchange Bank of Santa Rosa	TriCo Bancshares
Farmers & Merchants Bancorp	Westamerica Bancorp
First Northern Community Bancorp	

(1) Goodwill & intangibles data as of March 31, 2006

The analysis compared publicly available financial information as of and for the twelve-month period ended June 30, 2006 and market trading information as of September 14, 2006. The table below compares the data for Northern Empire and the median data for the comparable peer group.

Northern Empire Comparable Peer Group Analysis

		Northern Empire Peer Group
	Northern Empire	Median
Market capitalization (<i>in millions</i>)	\$ 262.4	\$ 225.4
Total assets (<i>in millions</i>)	\$ 1,328.8	\$ 1,094.7
Tangible equity/tangible assets	8.79%	7.49%
Real estate loans/total loans	78.4%	44.9%
Transaction accounts/total deposits(1)	4.4%	42.6%
LTM return on average assets	1.47%	1.42%
LTM return on average equity	16.8%	15.2%
Price/Tangible book value per share	2.25x	2.78x
Price/LTM earnings per share	15.0x	15.4x

(1) Transaction accounts include noninterest bearing deposits and checking accounts.

The selected Sterling peer group consisted of the following companies:

Bank of Hawaii Corp	First Republic Bank
Cathay General Bancorp	Greater Bay Bancorp
Central Pacific Financial Corp	Pacific Capital Bancorp(1)
CVB Financial Corp	SVB Financial Group
City National Corp	UCBH Holdings Inc
East West Bancorp Inc	Umpqua Holdings Corp

(1) Goodwill & intangibles data as of March 31, 2006.

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The analysis compared publicly available financial information as of and for the twelve-month period ended June 30, 2005 and market trading information as of September 14, 2006. The table below compares the data for Sterling and the median data for the comparable peer group.

Sterling Comparable Peer Group Analysis

	Sterling	Sterling Peer Group Median
Market capitalization (<i>in millions</i>)	\$ 1,157.0	\$ 1,601.3
Total assets (<i>in millions</i>)	\$ 8,044.3	\$ 7,413.7
Tangible equity/tangible assets	4.86%	6.74%
Total risk based capital ratio	10.9%	11.7%
LTM return on average assets	0.83%	1.52%
LTM return on average equity	12.0%	15.7%
Price/tangible book value per share	3.01x	3.17x
Price/LTM earnings per share	18.7x	16.4x
Price/estimated 2006 earnings per share	16.3x	16.0x
Price/estimated 2007 earnings per share	14.1x	14.5x
51/2 year core earnings per share compound annual growth rate	18.2%	14.3%
Price/52-week high	97.6%	90.9%
Dividend yield (last quarter annualized)	0.70%	1.87%

Analysis of Selected Merger Transactions. Sandler O'Neill reviewed 43 merger transactions announced from January 1, 2005 through September 14, 2006 involving commercial banks in the United States with announced transaction values greater than \$100 million and less than \$500 million. Sandler O'Neill also reviewed eight merger transactions announced from January 1, 2005 through September 14, 2006 involving commercial banks in California with announced transaction values greater than \$100 million and less than \$500 million.

Sandler O'Neill reviewed the following multiples:

transaction price at announcement to last twelve months reported earnings per share,

transaction price to book value per share,

transaction price to tangible book value per share,

tangible book premium to core deposits,

current market price premium,

As illustrated in the following table, Sandler O'Neill compared the proposed merger multiples to the median multiples of comparable transactions.

Comparable Transaction Multiples

	Northern Empire/ Sterling	Median Nationwide Group Multiple	Median California Group Multiple
Transaction price/Last twelve months earnings per share	18.3x	23.2x	19.1x
Transaction price/book value per share	274%	299%	282%
Transaction price/tangible book value per share	274%	325%	325%
Tangible book premium/core deposits(1)	34.7%	28.2%	30.7%
Premium to current market price(2)	21.9%	20.7%	15.7%

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(1) Core deposits exclude time deposits with account balances greater than \$100,000 and brokered CDs. Tangible book premium/core deposits calculated by dividing the excess of the aggregate transaction value of \$334.4 million over tangible book value by core deposits.

(2) Based on Northern Empire's closing price of \$24.00 per share as of September 14, 2006

Net Present Value Analysis. Sandler O'Neill performed an analysis that estimated the present value of the projected future stream of after-tax net income of Northern Empire through December 31, 2009 under various circumstances, assuming that Northern Empire performed in accordance with the internal financial projections and earnings guidance prepared by and reviewed with the Northern Empire senior management. The analysis assumed that Northern Empire did not pay a cash dividend to its shareholders. To approximate the terminal value of Northern Empire common stock at December 31, 2009, Sandler O'Neill applied price to earnings multiples ranging from 14x to 20x. The income streams and terminal values were then discounted to present values using different discount rates ranging from 11% to 17% chosen to reflect different assumptions regarding required rates of return of holders or prospective buyers of Northern Empire common stock. Sandler O'Neill also varied Northern Empire's forecasted net income using a range of 25% under forecast to 25% over forecast, and used a discount rate of 13.13% for this analysis.

This analysis resulted in the following reference ranges of indicated per share values for Northern Empire common stock:

Terminal Value Earnings per Share Multiples

Discount Rate	14.0x	16.0x	18.0x	20.0x
11.0%	\$ 24.13	\$ 27.57	\$ 31.02	\$ 34.47
12.0%	\$ 23.38	\$ 26.72	\$ 30.06	\$ 33.40
13.0%	\$ 22.67	\$ 25.90	\$ 29.14	\$ 32.38
14.0%	\$ 21.98	\$ 25.12	\$ 28.26	\$ 31.40
15.0%	\$ 21.32	\$ 24.36	\$ 27.41	\$ 30.45
16.0%	\$ 20.68	\$ 23.63	\$ 26.59	\$ 29.54
17.0%	\$ 20.07	\$ 22.93	\$ 25.80	\$ 28.67

Terminal Value earnings per share multiples

(analysis assumes a 13.13% discount rate)

		14.0x	16.0x	18.0x	20.0x
Under Budget	(25.0)%	\$ 16.93	\$ 19.35	\$ 21.77	\$ 24.19
	(20.0)%	\$ 18.06	\$ 20.64	\$ 23.22	\$ 25.80
	(15.0)%	\$ 19.19	\$ 21.93	\$ 24.67	\$ 27.41
	(10.0)%	\$ 20.32	\$ 23.22	\$ 26.12	\$ 29.02
Match Budget	(5.0)%	\$ 21.45	\$ 24.51	\$ 27.57	\$ 30.64
	0.0%	\$ 22.57	\$ 25.80	\$ 29.02	\$ 32.25
	5.0%	\$ 23.70	\$ 27.09	\$ 30.48	\$ 33.86
	10.0%	\$ 24.83	\$ 28.38	\$ 31.93	\$ 35.47

Exceed Budget	15.0%	\$ 25.96	\$ 29.67	\$ 33.38	\$ 37.09
	20.0%	\$ 27.09	\$ 30.96	\$ 34.83	\$ 38.70
	25.0%	\$ 28.22	\$ 32.25	\$ 36.28	\$ 40.31

Sandler O'Neill also performed an analysis that estimated the present value of the projected future stream of after-tax net income of Sterling through December 31, 2009 under various circumstances, assuming that Sterling performed in accordance with internal earnings per share estimates consistent with publicly available earnings per

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share estimates and long-term growth projections discussed with the Sterling senior management. The analysis assumed that Sterling paid an annual cash dividend to its shareholders equivalent to 11% of the year's earnings. To approximate the terminal value of Sterling common stock at December 31, 2009, Sandler O'Neill applied price to earnings multiples ranging from 12x to 18x. The income streams and terminal values were then discounted to present values using different discount rates ranging from 9% to 15% chosen to reflect different assumptions regarding required rates of return of holders or prospective buyers of Sterling common stock. Sandler O'Neill also varied Sterling's forecasted net income using a range of 25% under forecast to 25% over forecast, and used a discount rate of 10.99% for this analysis.

This analysis resulted in the following reference ranges of indicated per share values for Sterling common stock:

Terminal Value earnings per share multiples

Discount Rate	12.0x	14.0x	16.0x	18.0x
9.0%	\$ 26.70	\$ 31.01	\$ 35.31	\$ 39.62
10.0%	\$ 25.81	\$ 29.97	\$ 34.14	\$ 38.30
11.0%	\$ 24.96	\$ 28.98	\$ 33.01	\$ 37.03
12.0%	\$ 24.15	\$ 28.04	\$ 31.93	\$ 35.82
13.0%	\$ 23.36	\$ 27.13	\$ 30.89	\$ 34.65
14.0%	\$ 22.62	\$ 26.26	\$ 29.89	\$ 33.53
15.0%	\$ 21.90	\$ 25.42	\$ 28.94	\$ 32.46

Terminal Value earnings per share multiples

(analysis assumes a 10.99% discount rate)

		12.0x	14.0x	16.0x	18.0x
Under Budget	(25.0)%	\$ 18.93	\$ 21.95	\$ 24.97	\$ 27.99
	(20.0)%	\$ 20.14	\$ 23.36	\$ 26.58	\$ 29.80
	(15.0)%	\$ 21.35	\$ 24.77	\$ 28.19	\$ 31.61
	(10.0)%	\$ 22.56	\$ 26.18	\$ 29.80	\$ 33.42
Match Budget	(5.0)%	\$ 23.76	\$ 27.59	\$ 31.41	\$ 35.23
	0.0%	\$ 24.97	\$ 28.99	\$ 33.02	\$ 37.04
	5.0%	\$ 26.18	\$ 30.40	\$ 34.63	\$ 38.85
	10.0%	\$ 27.38	\$ 31.81	\$ 36.24	\$ 40.66
Exceed Budget	15.0%	\$ 28.59	\$ 33.22	\$ 37.85	\$ 42.47
	20.0%	\$ 29.80	\$ 34.63	\$ 39.46	\$ 44.29
	25.0%	\$ 31.01	\$ 36.04	\$ 41.07	\$ 46.10

In connection with its analysis, Sandler O'Neill considered and discussed with the Northern Empire board how the present value analyses would be affected by changes in the underlying assumptions, including variations with respect to net income. Sandler O'Neill noted that the net present value analysis is a widely used valuation methodology, but the results of such methodology are highly dependent upon the numerous assumptions that must be made, and the results thereof are not necessarily indicative of actual values or future results.

Pro Forma Merger Analysis. Sandler O'Neill analyzed certain potential pro forma effects of the merger, assuming:

the merger closes December 31, 2006,

Northern Empire's shares are exchanged for aggregate consideration of approximately 8.8 million shares of Sterling common stock and approximately \$30 million in cash,

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unexercised stock options to purchase shares of Northern Empire common stock are converted into options to purchase Sterling common stock,

Northern Empire's internal financial projections for the year ended December 31, 2006, and internal earnings guidance for the years ended December 31, 2007, 2008 and 2009 as provided by and discussed with Northern Empire senior management,

Sterling's earnings per share estimates for the years ended December 31, 2006 and 2007 and earnings guidance for the years ended December 31, 2008 and 2009 that are consistent with publicly available per share estimates and long-term growth rates for those years published by First Call and discussed with Sterling senior management,

certain purchase accounting adjustments (including amortizable identifiable intangibles created in the merger), charges and transaction costs associated with the merger, and

synergies are consistent with the estimates of the senior managements of Northern Empire and Sterling.

For each of the years ended December 31, 2007, 2008 and 2009, Sandler O'Neill compared the earnings per share of Sterling common stock to the earnings per share of the combined company common stock using the foregoing assumptions. The analyses indicated that the merger would be neutral to Sterling's projected 2007 earnings per share and accretive to Sterling's projected 2008 and 2009 earnings per share. The actual results achieved by the combined company may vary from projected results and the variations may be material.

Miscellaneous. Northern Empire has agreed to pay Sandler O'Neill a transaction fee in connection with the merger of approximately \$3,350,576, of which \$200,000 has been paid and the balance of which is contingent, and payable, upon closing of the merger. Northern Empire has also agreed to reimburse certain of Sandler O'Neill's reasonable out-of-pocket expenses incurred in connection with its engagement and to indemnify Sandler O'Neill and its affiliates and their respective partners, directors, officers, employees, agents, and controlling persons against certain expenses and liabilities, including liabilities under the securities laws.

Sandler O'Neill has in the past provided other investment banking services to Sterling. Sandler O'Neill may provide investment banking services to Sterling, and receive compensation for such services in the future, including during the period prior to the closing of the merger. In the ordinary course of its broker and dealer business, Sandler O'Neill may purchase securities from and sell securities to Northern Empire or Sterling and their affiliates. Sandler O'Neill may also actively trade the debt and/or equity securities of Northern Empire or Sterling or their affiliates for their own accounts and for the accounts of their customers and, accordingly, may at any time hold a long or short position in such securities.

Recommendation of the Sterling Board of Directors and Reasons of Sterling for the Merger

The Sterling board of directors reviewed and discussed the proposed merger with management and its financial and legal advisors before it unanimously determined that the merger is in the best interests of Sterling and the Sterling shareholders. The board unanimously recommends that Sterling shareholders vote for the approval of the merger agreement and the consummation of the transactions contemplated by that agreement.

The merger will enable Sterling to expand and strengthen its community banking presence in the western region. During its deliberation regarding the approval of the merger agreement, the board of directors of Sterling considered a number of factors, including, but not limited to, the following:

the opportunity to expand Sterling's footprint in the California market;

Northern Empire's strong existing customer base, established SBA lending platform and reputation for providing quality customer service;

the compatibility of the merger with Sterling's long-term community banking strategy;

the ability of the combined company to offer a broader array of products and services to Northern Empire's customers;

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that Northern Empire's financial performance is expected to make the transaction accretive to earnings in 2007;

potential opportunities to reduce operating costs and enhance revenue; and

Sterling management's prior record of integrating acquired financial institutions.

In reaching its decision to approve the merger agreement, Sterling's board of directors also considered the risks associated with the transaction, and, after due consideration, concluded that the potential benefits of the proposed transaction outweighed the risks associated with the proposed transaction.

The foregoing information and factors considered by Sterling's board of directors are not intended to be exhaustive. In view of the variety of factors and the amount of information considered, Sterling's board of directors did not find it practicable to, and did not, quantify, rank or otherwise assign relative weights to the specific factors it considered in approving the transaction. In addition, individual members of Sterling's board of directors may have given different weights to different factors. Sterling's board of directors considered all of these factors as a whole, and overall considered them to be favorable to and to support its determination.

Fairness Opinion of Sterling's Financial Advisor

Sterling engaged KBW to render an opinion to the shareholders of Sterling, as to the fairness from a financial point of view of the consideration paid in the merger of Northern Empire into Sterling. Sterling selected KBW because KBW is a nationally recognized investment-banking firm with substantial experience in transactions similar to the merger and is familiar with Sterling and its business. As part of its investment banking business, KBW is continually engaged in the valuation of financial businesses and their securities in connection with mergers and acquisitions.

On September 17, 2006, Sterling board held a meeting to evaluate the proposed merger of Northern Empire with and into Sterling. At this meeting, KBW reviewed the financial aspects of the proposed merger and rendered an oral opinion to Sterling, and will subsequently confirm in writing, as of such date, as to the fairness from a financial point of view of the consideration to be offered in the merger.

The text of KBW's written opinion is attached as Appendix C to this document and is incorporated herein by reference. Sterling's shareholders are urged to read the opinion in its entirety for a description of the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by KBW.

KBW's opinion is directed to the Sterling board and addresses only the fairness, from a financial point of view, of the consideration offered in the merger. It does not address the underlying business decision to proceed with the merger and does not constitute a recommendation to any Sterling shareholder as to how the shareholder should vote at the special meeting on the merger or any related matter.

In rendering its opinion, KBW:

reviewed, among other things:

the merger agreement,

Annual Reports to shareholders and Annual Reports on Form 10-K of Sterling,

Annual Reports to shareholders and Annual Reports on Form 10-K of Northern Empire,

Quarterly Reports on Form 10-Q of Sterling, and

Quarterly Reports on Form 10-Q of Northern Empire;

held discussions with members of senior management of Sterling and Northern Empire regarding:

past and current business operations,

regulatory relationships,

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financial condition, and

future prospects of the respective companies;

reviewed the market prices, valuation multiples, publicly reported financial conditions and results of operations for Sterling and, publicly reported financial conditions and results of operations of Northern Empire and compared them with those of certain publicly traded companies that KBW deemed to be relevant; and

compared the proposed financial terms of the merger with the financial terms of certain other transactions that KBW deemed to be relevant; and

performed other studies and analyses that it considered appropriate.

In conducting its review and arriving at its opinion, KBW relied upon and assumed the accuracy and completeness of all of the financial and other information provided to or otherwise made available to KBW or that was discussed with, or reviewed by or for KBW, or that was publicly available. KBW did not attempt or assume any responsibility to verify such information independently. KBW relied upon the management of Sterling and Northern Empire as to the reasonableness and achievability of the financial and operating forecasts and projections, and assumptions and bases for those projections, provided to KBW. KBW assumed, without independent verification, that the aggregate allowances for loan and lease losses for Sterling and Northern Empire are adequate to cover those losses. KBW did not make or obtain any evaluations or appraisals of any assets or liabilities of Sterling or Northern Empire, and KBW did not examine any books and records or review individual credit files.

The projections furnished to KBW and used by it in certain of its analyses were prepared by Sterling's and Northern Empire's senior management teams. Sterling and Northern Empire do not publicly disclose internal management projections of the type provided to KBW in connection with its review of the merger. As a result, such projections were not prepared with a view towards public disclosure. The projections were based on numerous variables and assumptions which are inherently uncertain, including factors related to general economic and competitive conditions. Accordingly, actual results could vary significantly from those set forth in the projections.

For purposes of rendering its opinion, KBW assumed that, in all respects material to its analyses:

the merger will be completed substantially in accordance with the terms set forth in the merger agreement;

the representations and warranties of each party in the merger agreement and in all related documents and instruments referred to in the merger agreement are true and correct;

each party to the merger agreement and all related documents will perform all of the covenants and agreements required to be performed by such party under such documents;

all conditions to the completion of the merger will be satisfied without any waivers; and

in the course of obtaining the necessary regulatory, contractual, or other consents or approvals for the merger, no restrictions, including any divestiture requirements, termination or other payments or amendments or modifications that will be imposed, will have a material adverse effect on the future results of operations or financial condition of the combined entity or the contemplated benefits of the merger, including the cost savings, revenue enhancements and related expenses expected to result from the merger.

KBW further assumed that the merger will be accounted for as a purchase under generally accepted accounting principles, and that the merger will qualify as a tax-free reorganization for U.S. federal income tax purposes. KBW's opinion is not an expression of an opinion as to the prices at which shares of Sterling common stock will trade following the announcement of the merger or the actual value of the Sterling common shares or Northern Empire common shares when issued pursuant to the merger, or the prices at which the Sterling common shares will trade following the completion of the merger.

In performing its analyses, KBW made numerous assumptions with respect to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of KBW, Sterling and Northern Empire. Any estimates contained in the analyses performed by KBW are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than

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suggested by these analyses. Additionally, estimates of the value of businesses or securities do not purport to be appraisals or to reflect the prices at which such businesses or securities might actually be sold. Accordingly, these analyses and estimates are inherently subject to substantial uncertainty. In addition, the KBW opinion was among several factors taken into consideration by the Sterling board in making its determination to adopt the merger agreement and the merger. Consequently, the analyses described below should not be viewed as determinative of the decision of the Sterling board or management of Sterling with respect to the fairness of the consideration offered in the merger.

Summary of Analyses by KBW.

The following is a summary of the material analyses presented by KBW to the Sterling board on September 17, 2006, in connection with its oral opinion. The summary is not a complete description of the analyses underlying the KBW opinion or the presentation made by KBW to the Sterling board, but summarizes the material analyses performed and presented in connection with such opinion. The preparation of a fairness opinion is a complex analytic process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. Therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at its opinion, KBW did not attribute any particular weight to any analysis or factor that it considered, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. The financial analyses summarized below include information presented in tabular format. Accordingly, KBW believes that its analyses and the summary of its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on the information presented below in tabular format, without considering all analyses and factors or the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the process underlying its analyses and opinion. The tables alone do not complete description of the financial analyses.

Calculation of Implied Value of Consideration. Based upon the closing price for Sterling common stock on September 15, 2006 (the last trading day prior to the public announcement of the merger) of \$33.04 per share, the 0.8050 exchange ratio represented approximately \$29.31 in value for each share of Northern Empire common stock or approximately \$335 million.

Contribution Analysis. KBW analyzed the relative contribution of each of Sterling and Northern Empire to the pro forma balance sheet and income statement items of the combined entity as of June 30, 2006, including 2007 estimated net income, stockholder's equity, tangible equity, assets, deposits, loans, and market capitalization. KBW compared the relative contribution of balance sheet and income statement items with the estimated pro forma ownership for Sterling and Northern Empire. The results of KBW's analysis are set forth in the following table.

Category	NREB	STSA Pro Forma
2007 Estimated Net Income	18.6%	81.4%
Stockholder's Equity	13.4%	86.6%
Tangible Equity	20.0%	80.0%
Assets	11.7%	88.3%
Deposits	11.9%	88.1%
Loans	14.4%	85.6%
Market Capitalization	16.7%	83.3%

Selected Transaction Analysis. KBW reviewed certain financial data related to comparably sized Nationwide bank transactions announced between September 15, 2005 and September 15, 2006 with aggregate transaction values between \$100 and \$500 as well as to comparably sized Western bank transactions announced between September 15, 2005 and September 15, 2006 with aggregate transaction values between \$100 and \$500 million.

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Nationwide Bank Transactions September 15, 2005 and September 15, 2006

Acquirer

Acquiree

Royal Bank of Canada
IBERIABANK Corp.
NewAlliance Bancshares Inc.
Prosperity Bancshares Inc.
Cullen/Frost Bankers Inc.
Community Bancorp
Banco Bilbao Vizcaya Argent SA
Castle Creek Capital III LLC
First Charter Corp.
Alabama National BanCorp.
First Republic Bank
First Community Bancorp
MB Financial Inc.
TD Banknorth Inc.
Trustmark Corp.
Mercantile Bankshares Corp.
Cathay General Bancorp Inc.
Placer Sierra Bancshares
Midwest Banc Holdings Inc.
Umpqua Holdings Corp.
Grupo Financiero Banorte
BB&T Corp.
Western Alliance Bancorp
Cascade Bancorp
Marshall & Ilsley Corp.
First Community Bancorp
First Midwest Bancorp Inc.
Wintrust Financial Corp.
Prosperity Bancshares Inc.
Susquehanna Bancshares Inc.
Alabama National BanCorp.
Rabobank Nederland
New York Community Bancorp
Pinnacle Financial Partners
FNB Corp.
Compass Bancshares Inc.
First Community Bancorp
Synovus Financial Corp.

FLAG Financial Corp.
Pulaski Investment Corp.
Westbank Corp.
Texas United Bancshares Inc.
Summit Bancshares Inc.
Valley Bancorp
State National Bancshares Inc.
BB&T Bancshares Corp.
GBC Bancorp Inc
PB Financial Services Corp.
BWC Financial Corp.
Community Bancorp Inc.
First Oak Brook Bancshares
Interchange Financial Services
Republic Bancshares of Texas
James Monroe Bancorp Inc.
Great Eastern Bank
Southwest Community Bancorp
Royal American Corporation
Western Sierra Bancorp
INB Financial Corporation
First Citizens Bancorp
Intermountain First Bancorp
F & M Holding Company
Trustcorp Financial Inc.
Foothill Independent Bancorp
Bank Calumet Inc.
Hinsbrook Bancshares Inc.
SNB Bancshares Inc.
Minotola National Bank
Florida Choice Bankshares Inc.
Central Coast Bancorp
Atlantic Bank of New York
Cavalry Bancorp Inc.
Integrity Financial Corp
TexasBanc Holding Company
Cedars Bank
Riverside Bancshares Inc.

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Western Bank Transactions September 15, 2005 and September 15, 2006

Acquirer

Community Bancorp
First Republic
First Community Bancorp
Placer Sierra Bancshares
Umpqua Holdings Corp.
Western Alliance Bancorp
Cascade Bancorp
First Community Bancorp
Rabobank Nederland
First Community Bancorp

Acquiree

Valley Bancorp
BWC Financial Corp.
Community Bancorp
Southwest Community Bancorp
Western Sierra Bancorp
Intermountain First Bancorp
F & M Holding Company
Foothill Independent Bancorp
Central Coast Bancorp
Cedars Bank

Transaction multiples from the merger were derived from the deal price based upon the closing price for Sterling common stock on September 15, 2006 (the last trading day prior to the public announcement of the merger) of \$33.04 per share, and financial data as of June 30, 2006. KBW compared these results with announced multiples.

For the purpose of this analysis, transaction multiples from the merger were derived from the estimated \$29.31 per share price of Northern Empire Bancshares common stock and financial data as of June 30, 2006.

The results of the analysis are set forth in the following table.

	NREB/Sterling Transaction	Prior Western Bank Median	Prior National Bank Median
Deal Price/Book Value	274%	311%	300%
Deal Price/Tangible Book Value	274%	339%	330%
Deal Price/Trailing 12 Months Earnings per Share	18.3x	20.9x	22.8x
Deal Premium/Core Deposits	34.9%	30.5%	28.5%
Market Premium	22.2%	16.8%	20.7%

No company or transaction used as a comparison in the above analysis is identical to Sterling, Northern Empire or the merger. Accordingly, an analysis of these results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies.

Selected Peer Group Analysis. KBW compared the financial performance and market performance of Northern Empire Bancshares to those of a selected group of bank holding companies with Assets between \$1 and \$2 billion. The group included:

First Regional Bancorp
Nara Bancorp
TriCo Bancshares
Capital Corp of the West

Center Financial Corporation
Beverly Hills Bancorp Inc.
AmericanWest Bancorporation
Cascade Financial Corporation
Preferred Bank
Sierra Bancorp
First Mutual Bancshares, Inc.
Heritage Commerce Corp
Temecula Valley Bancorp, Inc.
Pacific Mercantile Bancorp
Community Bancorp

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To perform this analysis, KBW used the financial information as of and for the period ended June 30, 2006. Market price information was as of September 15, 2006 and earnings estimates were taken from a nationally recognized earnings estimate consolidator for comparable companies.

KBW's analysis showed the following concerning Northern Empire's financial performance:

Performance Measure	NREB	Peer Group Average	Peer Group Median
Return on Assets	1.45%	1.39%	1.49%
Return on Equity	16.39%	16.92%	16.59%
Net Interest Margin	3.84%	4.69%	4.98%
Efficiency Ratio	37.77%	51.63%	51.98%
Equity/Assets	8.79%	8.64%	8.28%
Tangible Equity/Tangible Assets	8.79%	8.09%	7.72%
Non-Performing Assets/Loans + OREO	0.01%	0.22%	0.19%
Non-Interest Income/Average Assets	0.37%	0.74%	0.65%
Loan Loss Reserves/Non-Performing Loans	NM	574.38%	564.39%

Other Analyses. KBW reviewed the relative financial and market performance of Sterling and Northern Empire to a variety of relevant industry peer groups and indices. KBW also reviewed balance sheet composition, historical performance and other financial data for Northern Empire.

KBW's analysis also showed the following concerning Northern Empire Bancshares's financial performance:

Performance Measure	NREB	Peer Group Average	Peer Group Median
Price to Book Multiple Value per Share	2.16x	2.42x	2.40x
Price to Tangible Book Multiple Value per Share	2.16x	2.58x	2.66x
Price to Earnings Multiple, Trailing 12 Months Earnings per Share	14.91x	16.15x	15.10x
Dividend Yield	0.00%	1.17%	0.76%

KBW reviewed the assumptions on which the analyses described above were based and the factors considered in connection therewith.

The Sterling board has retained KBW as an independent contractor to act as financial advisor to Sterling regarding the merger. As part of its investment banking business, KBW is continually engaged in the valuation of banking businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for estate corporate and other purposes. As specialists in the securities of banking companies, KBW has experience in, and knowledge of, the valuation of banking enterprises. In the ordinary course of its business as a broker-dealer, KBW may, from time to time, purchase securities from, and sell securities to, Sterling. As a market maker in securities KBW may from time to time have a long or short position in, and buy or sell, debt or equity securities of Sterling for KBW's own account and for the accounts of its customers.

Sterling and KBW have entered into an agreement relating to the services to be provided by KBW in connection with the merger. Sterling will pay to KBW at the time the Proxy Statement is mailed to shareholders, a cash fee of \$200,000. Pursuant to the KBW engagement agreement, Sterling also agreed to reimburse KBW for reasonable out-of-pocket expenses and disbursements incurred in connection with its retention and to indemnify it against certain liabilities, including liabilities under the federal securities laws.

Consideration to be Received in the Merger

At the effective time of the merger, Sterling will issue 0.8050 shares of Sterling common stock and \$2.71 in cash for each outstanding share of Northern Empire common stock, provided, however, that the maximum number of shares of Sterling common stock that may be issued shall be 9,434,960. A Northern Empire shareholder may also

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receive cash in lieu of a fractional share of common stock of Sterling. Except for the shares to be received by certain Northern Empire affiliates, which will have certain sale restrictions as described below in "The Merger - Restrictions on Resales by Affiliates," the Sterling shares of common stock received by Northern Empire shareholders will be unrestricted publicly tradable shares.

Conversion of Shares; Exchange of Certificates

As soon as reasonably practicable after the effective time of the merger, each holder of a certificate formerly representing shares of Northern Empire common stock who surrenders the certificate, and upon receipt and acceptance of the certificate together with duly executed transmittal materials by American Stock Transfer & Trust Company, as exchange agent, shall be entitled to a certificate representing Sterling common stock and cash as merger consideration.

Regulatory Approvals Required for the Merger

The closing of the merger is conditioned upon the receipt of all approvals of regulatory authorities required for the merger. Under the terms of the merger agreement, Sterling and Northern Empire have agreed to use their reasonable best efforts to obtain all necessary permits, consents, approvals and authorizations from any governmental authority necessary, proper or advisable to consummate the merger.

The merger of Sterling and Northern Empire is subject to prior approval by the Federal Reserve Board. In addition, the acquisition of Northern Empire is subject to the receipt of prior approval from the OCC, the FDIC, and the WDFI. Applications for prior approval of the merger by the Federal Reserve Board, the OCC, the FDIC and the WDFI were filed on or about December 11, 2006.

Material United States Federal Income Tax Considerations of the Merger

The following is a discussion of the anticipated material U.S. federal income tax consequences of the merger to U.S. holders (as defined below) of shares of Northern Empire common stock who exchange such shares for cash and shares of Sterling common stock in the merger. This discussion addresses only those holders who hold their shares of Northern Empire common stock as capital assets. This discussion does not address all of the U.S. federal income tax consequences that may be relevant to particular holders in light of their individual circumstances or to holders who are subject to special rules, such as, without limitation:

- a partnership, subchapter S corporation or other pass-through entity;
- a foreign person, foreign entity or U.S. expatriate;
- a mutual fund, bank, thrift or other financial institution;
- a tax-exempt organization or pension fund;
- an insurance company;
- a trader in securities that elects mark-to-market;
- a dealer in securities or foreign currencies;
- a person who received his or her shares of Northern Empire common stock through a benefit plan or a tax-qualified retirement plan or through the exercise of employee stock options or similar derivative securities

or otherwise as compensation;

a person who may be subject to the alternative minimum tax provisions of the Code;

a person whose functional currency is not the U.S. dollar;

a person who exercises dissenters' rights; and

a person who holds Northern Empire common stock as part of a hedge, appreciated financial position, straddle, synthetic security, conversion transaction or other integrated investment.

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The following discussion is based on the Code, applicable Treasury regulations, administrative interpretations and court decisions, each as in effect as of the date of this joint proxy statement/prospectus and all of which are subject to change, possibly with retroactive effect. It is not binding on the Internal Revenue Service, referred to as the IRS. In addition, this discussion does not address any tax consequences arising under the laws of any state, locality or foreign jurisdiction.

For purposes of this discussion, the term "U.S. holder" means a beneficial owner of Northern Empire common stock that is:

a U.S. citizen or resident, as determined for federal income tax purposes;

a corporation, or entity taxable as a corporation, created or organized in or under the laws of the United States; or

otherwise subject to U.S. federal income tax on a net income basis.

Holders of Northern Empire common stock should consult their own tax advisors as to the specific tax consequences to them of the merger in light of their particular circumstances, including the applicability and effect of the alternative minimum tax and any state, local, foreign and other tax laws and of changes in those laws.

In the opinion of Witherspoon, Kelley, Davenport & Toole, P.S., counsel to Sterling, and Moss Adams, LLP, special tax counsel to Northern Empire, the merger will qualify as a reorganization within the meaning of Section 368(a) of the Code and each of Sterling and Northern Empire will be a party to the reorganization within the meaning of Section 368(b) of the Code. The resulting tax consequences, subject to the reservations noted above, are as follows:

Exchange of Northern Empire Common Stock for Sterling Common Stock and Cash.

A U.S. holder who receives shares of Sterling common stock in exchange for shares of Northern Empire common stock will not recognize gain or loss as a result of the merger, except with respect to any cash received whether received in lieu of fractional share interests in Sterling common stock or otherwise; and

the aggregate tax basis of the Sterling common stock received by in U.S. holder in the merger will be the same as the aggregate tax basis of the Northern Empire common stock for which it is exchanged, increased by the amount of gain (if any) recognized by such holder and decreased by the amount of any cash received (excluding any cash received in lieu of fractional shares).

Potential Treatment of Cash as a Dividend.

In general, the determination of whether gain recognized by a U.S. holder of Northern Empire common stock will be treated as capital gain or a dividend distribution will depend upon whether, and to what extent, the merger reduces such holder's deemed percentage stock ownership interest in Sterling. For purposes of this determination, a U.S. holder of Northern Empire common stock will be treated as if it first exchanged all of the shareholder's Northern Empire common stock solely for Sterling common stock (instead of the combination of Sterling common stock and cash actually received) and then Sterling immediately redeemed a portion of that Sterling common stock in exchange for the cash the holder received in the merger. The gain recognized by such holder by the deemed redemption will be treated as capital gain if, with respect to the holder, the deemed redemption is "substantially disproportionate" or "not essentially equivalent to a dividend."

In general, the deemed redemption will be substantially disproportionate with respect to a U.S. holder of Northern Empire common stock if the percentage described in (ii) below is less than 80% of the percentage described in (i) below. Whether the deemed redemption is not essentially equivalent to a dividend with respect to a U.S. holder of Northern Empire common stock will depend on the shareholder's particular circumstances. In order for the deemed redemption to be not essentially equivalent to a dividend, the deemed redemption must result in a meaningful reduction in such holder's deemed percentage stock ownership of Sterling common stock. In general, that determination requires a comparison of (i) the percentage of the outstanding voting stock of Sterling that the U.S. holder of Northern Empire common stock is deemed actually and constructively to have owned immediately

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before the deemed redemption by Sterling and (ii) the percentage of the outstanding voting stock of Sterling actually and constructively owned by such holder immediately after the deemed redemption by Sterling. In applying the foregoing tests, a U.S. holder of Northern Empire common stock may, under constructive ownership rules, be deemed to own stock in addition to stock actually owned by it, including stock owned by other persons and stock subject to an option held by such holder or by other persons. Because the constructive ownership rules are complex, each U.S. holder of Northern Empire common stock should consult his or her own tax advisor as to the applicability of these rules. The IRS has indicated that a minority shareholder in a publicly traded corporation whose relative stock interest is minimal and who exercises no control with respect to corporate affairs is considered to have a meaningful reduction if that shareholder has any reduction in its percentage stock ownership under the foregoing analysis.

Cash Received in Lieu of a Fractional Share.

To the extent that a Northern Empire shareholder receives cash in lieu of a fractional share of common stock of Sterling, the shareholder will be deemed to have received that fractional share in the merger and then to have received the cash in redemption of that fractional share. The shareholder generally will recognize gain or loss equal to the difference between the cash received and the portion of the shareholder's tax basis in the shares of Northern Empire common stock surrendered allocable to that fractional share. This gain or loss generally will be long-term capital gain or loss if the holding period for the applicable share of Northern Empire common stock is more than one year as of the date of the merger.

Backup Withholding.

Cash payments received in the merger by a U.S. holder may, under certain circumstances, be subject to information reporting and backup withholding at a rate of 28% of the cash payable to the holder, unless the holder provides proof of an applicable exemption or furnishes its taxpayer identification number, and otherwise complies with all applicable requirements of the backup withholding rules. Any amounts withheld from payments to a holder under the backup withholding rules are not additional tax and will be allowed as a refund or a credit against the U.S. holder's U.S. federal income tax liability, provided the required information is timely furnished to the IRS.

Reporting Requirements.

A Northern Empire shareholder will be required to retain records pertaining to the merger and will be required to file with the shareholder's U.S. federal income tax return for the year in which the merger takes place a statement setting forth certain facts relating to the merger.

TAX MATTERS REGARDING THE MERGER ARE VERY COMPLICATED, AND THE TAX CONSEQUENCES OF THE MERGER TO ANY PARTICULAR NORTHERN EMPIRE SHAREHOLDER WILL DEPEND ON THAT SHAREHOLDER'S PARTICULAR SITUATION. NORTHERN EMPIRE SHAREHOLDERS ARE STRONGLY URGED TO CONSULT THEIR OWN TAX ADVISORS REGARDING THE SPECIFIC TAX CONSEQUENCES OF THE MERGER, INCLUDING TAX RETURN REPORTING REQUIREMENTS, THE APPLICABILITY OF FEDERAL, STATE, LOCAL AND FOREIGN TAX LAWS AND THE EFFECT OF ANY PROPOSED CHANGE IN THE TAX LAWS TO THEM.

Accounting Treatment

The costs related to the merger are expected to be approximately \$8.3 million and the merger will be accounted for as a purchase for financial accounting purposes in accordance with accounting principles generally accepted in the United States. For purposes of preparing Sterling's consolidated financial statements, Sterling will establish a new accounting basis for Northern Empire's assets and liabilities based upon their fair values, the merger consideration and

the costs of the merger as of the acquisition date. Sterling will record any excess of cost over the fair value of the net assets, including any intangible assets with definite lives, of Northern Empire as goodwill. A final determination of the intangible asset values and required purchase accounting adjustments, including the allocation of the purchase price to the assets acquired and liabilities assumed based on their respective fair values, has not yet been made. Sterling will determine the fair value of Northern Empire's assets and liabilities and will

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make appropriate purchase accounting adjustments including the calculation of any intangible assets with definite lives, upon completion of the acquisition. Goodwill will be periodically reviewed for impairment. Other intangible assets will be amortized against the combined company's earnings following completion of the merger.

Interests of Certain Persons in the Merger

In considering the recommendation of the Northern Empire board of directors, you should be aware that some members of Northern Empire management have certain interests in the transactions contemplated by the merger agreement, as described below, that are different from or in addition to the interests of shareholders generally and that may create potential conflicts of interest. The Northern Empire board of directors was aware of these interests and considered them, among other matters, in approving the merger agreement and the transactions contemplated thereby.

Board of Directors.

The merger agreement provides that Sterling shall appoint one member of Northern Empire's board of directors, selected by Sterling, to Sterling's board of directors and one member of Northern Empire's board of directors, selected by Sterling, to Sterling Savings Bank's board of directors. All other Northern Empire directors will be invited to serve as advisory board members to Sterling Savings Bank for at least one year.

Stock Ownership.

As of the date of this joint proxy statement/prospectus, the directors and executive officers of Northern Empire, together with their affiliates, beneficially owned (assuming the exercise of their outstanding options) a total of 2,208,309 shares of Northern Empire common stock, including options exercisable within 60 days of the record date representing approximately 20.05% of all outstanding shares of Northern Empire common stock. The directors and executive officers of Northern Empire will receive the same consideration in the merger for their shares as the other shareholders of Northern Empire and, as optionees under Northern Empire's Stock Option Plan, their options to purchase Northern Empire shares will be converted into options to purchase Sterling shares.

Stock Options.

All outstanding Northern Empire options at the time of the merger shall be automatically converted into options to purchase shares of Sterling common stock subject to the terms of the Northern Empire Stock Option Plan, under which such options were granted. The merger agreement provides that the amount and exercise price of the converted options shall be determined based upon the Option Exchange Ratio of 0.8873. See *The Merger Treatment of Options*. The Northern Empire Stock Option Plan provides that all outstanding options become fully vested and exercisable upon a change of control, which shall occur at the time of the merger. As of January 8, 2007, there were options outstanding to purchase 707,431 shares of Northern Empire common stock at a weighted average exercise price of \$10.80, of which options for 698,944 shares are fully vested and options for 8,487 shares will become fully vested upon a change of control which will occur as a result of the merger with Sterling.

Northern Empire Change of Control Obligations

Sonoma is a party to an employment agreement with Deborah A. Meekins, which provides for a change in control payment based upon a comparison of the merger consideration to the book value of Northern Empire at the time of the merger. Sterling has entered into a new employment agreement with Ms. Meekins, as described below under

Employment Agreements, providing for a payment of \$240,000 on the closing of the merger as a complete discharge of the change in control obligations to Ms. Meekins under the employment agreement with Sonoma.

Severance Policy

Northern Empire and Sonoma have adopted a severance policy in connection with the merger with Sterling. The severance policy applies to any Northern Empire and/or Sonoma employee whose employment is terminated within 180 days after the effective date of the merger. Pursuant to the severance policy and the merger agreement,

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such employees, who are not otherwise entitled to receive severance payments under any employment or severance agreement, will receive severance in the amount of one year's salary for certain executives and one week's salary for each year of service, up to a maximum of six months' salary, for all other employees.

Salary Continuation Agreements.

Sonoma maintains salary continuation agreements for Deborah A. Meekins and David F. Titus. These agreements provide for the acceleration of vesting upon a change in control, entitling both Ms. Meekins and Mr. Titus to annual benefits of \$100,000 for 15 and 20 years, respectively. Sterling will assume the agreements and distribute the benefits provided thereunder in accordance with their terms, which generally provide for annual payments for 15 to 20 years commencing at retirement.

Deferred Fee Agreements

Sonoma also maintains deferred fee agreements with Directors James B. Keegan, Jr., William E. Geary and Patrick R. Gallaher. These agreements allow directors to defer fees, which deferrals shall earn interest at an annual interest rate to be determined by the board of directors upon the anniversary of the execution of the agreements and before any benefits are paid thereunder. Upon a change in control, each director's deferral account shall be paid in lump sum within 30 days following the change in control. As of December 31, 2006, the amounts accrued for Messrs. Keegan, Geary and Gallaher under these agreements is \$260,253, \$120,218, and \$223,074, respectively.

Protection of Northern Empire Directors, Officers and Employees against Claims.

The merger agreement provides that, upon completion of the merger, Sterling will indemnify and hold harmless, and provide advancement of expenses to, all past and present officers, directors and employees of Northern Empire and Sonoma, to the fullest extent permitted by applicable laws, relating to lawsuits or claims arising from facts and events occurring prior to completion of the merger.

The merger agreement also provides that Sterling will maintain for a period of six years after completion of the merger the current or comparable directors' and officers' liability insurance policies maintained by Northern Empire, or policies of at least the same coverage and amount and containing terms and conditions that are not less advantageous than the current policy, with respect to lawsuits or claims arising from facts and events occurring prior to completion of the merger.

The merger agreement also provides that Sterling will assume the obligations of Northern Empire and Sonoma under Indemnification Agreements with the present and certain former directors of Northern Empire and Sonoma and certain officers of Sonoma: Clement C. Carinalli, James B. Keegan, Jr., Dennis R. Hunter, William E. Geary, Patrick R. Gallaher, Kevin E. Carinalli, Michael J. Wright, Deborah A. Meekins, and David Titus.

Employment Agreements.

Deborah A. Meekins has executed an employment agreement with Sterling that shall be effective as of the closing date of the merger and shall continue until terminated by either party for any or no reason. Ms. Meekins will be entitled to an annual base salary of \$200,000 and will be eligible for discretionary bonuses in accordance with Sterling's standard practices for employees at the senior vice president level. Additionally, as consideration for entering into the employment agreement and taking a salary reduction from her base salary while at Sonoma, Sterling will contribute \$600,000 to its deferred compensation plan on behalf of Ms. Meekins, which shall vest ratably over three years to become 100% vested on December 31, 2009, if Ms. Meekins is still employed by Sterling as of that date. Ms. Meekins is also entitled to no less than four weeks paid vacation and to participate in Sterling's employee

benefit plans and perquisite programs that are commensurate with other employees at the senior vice president level. In consideration for the merger payment that would have become due to Ms. Meekins under her employment agreement with Sonoma, Sterling has agreed to pay \$240,000 on the closing date of the merger as payment for the obligations due to Ms. Meekins under her prior employment agreement with Sonoma. The employment agreement also contains confidentiality, noncompetition and nonsolicitation provisions.

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It is expected that David Titus will also enter into an employment agreement with Sterling or Sterling Savings Bank prior to the closing date of the merger.

Restrictions on Resales by Affiliates

The shares of Sterling common stock to be issued to Northern Empire shareholders in the merger will be registered under the Securities Act. These shares may be traded freely and without restriction by those shareholders not deemed to be affiliates of Northern Empire. An affiliate of a corporation, as defined by the Securities Act, is a person who directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, that corporation and generally may include Northern Empire's and Sonoma's directors and executive officers. Any subsequent transfer of Sterling common stock by an affiliate of Northern Empire must be either made in compliance with the resale provisions of Rule 145 promulgated under the Securities Act or otherwise permitted under the Securities Act.

Method of Effecting the Acquisition

Sterling may at any time change the method of effecting the acquisition of Northern Empire and its subsidiary. However, no change may: (i) alter or change the amount or kind of consideration or other benefits to be issued to holders of the common stock of Northern Empire, as provided for in the merger agreement; (ii) have an adverse effect on the tax treatment of Northern Empire's shareholders as a result of receiving the merger consideration; or (iii) prevent or materially impede or delay completion of the transactions contemplated by the merger agreement.

Effective Time

The effective time of the merger will be the time and date when the merger becomes effective, as set forth in the articles of merger that will be filed with the Washington Secretary of State and the California Secretary of State on the closing date of the merger. The closing date will occur on a date to be specified by Sterling and Northern Empire. Subject to applicable law, this date will be no later than the tenth day after the satisfaction or waiver of the latest to occur of: (i) receipt of all required regulatory approvals and the expiration of all required waiting periods; or (ii) the approval of the merger by the shareholders of Northern Empire and Sterling; provided, however that in no event shall such date be earlier than February 1, 2007, with such date to be specified in writing by Sterling to Northern Empire at least five business days prior to such closing, or such other date, place and time as the parties may agree. Sterling and Northern Empire shall each use their reasonable best efforts to cause all conditions to the closing to be satisfied (unless waived) on or before February 28, 2007.

We anticipate that the merger of Northern Empire with and into Sterling will be completed by no later than April 2, 2007. However, completion of the merger could be delayed if there is a delay in obtaining the required regulatory approvals or in satisfying other conditions to the merger. The date for completing the merger can occur as late as April 2, 2007, after which Northern Empire or Sterling would need to mutually agree to extend the closing date of the merger. See the sections entitled "The Merger - Regulatory Approvals Required for the Merger" and "The Merger Agreement - Conditions to Consummation of the Merger."

Treatment of Options

The Northern Empire Stock Option Plan provides for acceleration of vesting for outstanding options, effective at the effective time of the merger. At that time any outstanding unvested option will become fully vested and exercisable. Prior to the effective time, any vested option holder exercising his or her vested options will thereafter participate in the merger on the same basis as other Northern Empire shareholders in the merger. At the effective time, each Northern Empire's stock option then outstanding will be converted into a fully vested option to acquire a number of

shares of Sterling's common stock equal to the product of the number of Northern Empire's common stock subject to the stock option multiplied by 0.8873, at an exercise price per share equal to the exercise price of the stock option divided by 0.8873.

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Declaration and Payment of Dividends

Holders of Northern Empire common stock will accrue but will not be paid dividends or other distributions declared after the effective time with respect to Sterling common stock into which their shares have been converted until they surrender their Northern Empire stock certificates for exchange after the effective time. Upon surrender of those certificates after the effective time, the combined company will pay any unpaid dividends or other distributions, without interest. After the effective time, there will be no transfers on the stock transfer books of Northern Empire of shares of Northern Empire common stock issued and outstanding immediately prior to the effective time. If certificates representing shares of Northern Empire common stock are presented for transfer after the effective time, they will be cancelled and exchanged for certificates representing the applicable number of shares of Sterling common stock.

No Fractional Shares

No fractional shares of Sterling common stock will be issued to any shareholder of Northern Empire upon completion of the merger. For each fractional share that would otherwise be issued, Sterling will pay cash in an amount equal to the fraction of a share of Sterling common stock which the holder would otherwise be entitled to receive, multiplied by the average closing price of Sterling common stock over a five consecutive trading-day period ending on the later of (i) the date on which Northern Empire receives written notice that the last regulatory approval has been received and (ii) the date immediately following the date of approval of the merger by the Northern Empire shareholders. No interest will be paid or accrued on cash payable to holders of those certificates in lieu of fractional shares.

Stock Matters

None of Sterling, Northern Empire, the exchange agent or any other person will be liable to any former shareholder of Northern Empire for any amount delivered in good faith to a public official pursuant to applicable abandoned property, escheat or similar laws.

If a certificate for Northern Empire stock has been lost, stolen or destroyed, the exchange agent will issue the consideration properly payable under the merger agreement upon the making of an affidavit by the person claiming that loss, theft or destruction and the posting of a bond in an amount reasonably necessary as indemnity against any claim that may be made against Sterling with respect to that lost certificate.

For a description of Sterling common stock and a description of the differences between the rights of the holders of Northern Empire common stock compared to the rights of the holders of Sterling common stock, see the sections entitled Description of Sterling Capital Stock and Comparison of Rights of Northern Empire Common Stock and Sterling Common Stock.

THE MERGER AGREEMENT

The following summary of the material terms and provisions of the merger agreement is qualified in its entirety by reference to the Agreement and Plan of Merger by and between Sterling and Northern Empire, which is dated as of September 17, 2006. The merger agreement is attached as Appendix A to this joint proxy statement/prospectus and is incorporated by reference herein.

Representations and Warranties

The merger agreement contains substantially similar representations and warranties of Sterling and Northern Empire as to, among other things:

corporate organization and existence;

the corporate organization and existence of any subsidiaries;

capitalization;

corporate power and authority;

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governmental and third-party approvals required to complete the merger;

timely filing of required regulatory reports and absence of regulatory investigations or restrictive agreements with regulators;

availability, accuracy and compliance of reports and filings with the Securities and Exchange Commission;

broker's fees;

absence of certain changes or events;

legal proceedings;

payment of taxes and filing of tax returns;

regulatory agreements;

state takeover laws;

environmental matters;

allowances for losses;

compliance with applicable laws;

loans;

undisclosed material liabilities;

tax treatment of the merger; and

information to be contained in securities filings or other documents filed with governmental entities.

In addition, the merger agreement contains further representations and warranties of Northern Empire as to, among other things:

employee benefit matters;

validity of, and the absence of defaults under, certain material contracts;

properties and assets;

insurance coverage;

intellectual property rights;

indemnification;

insiders' interests; and

fairness opinion.

Conduct of Sterling Pending the Merger

From the signing of the merger agreement until the effective time of the merger, except as expressly contemplated by the merger agreement, Sterling has agreed that it will not:

take any action that is intended or may reasonably be expected to result in: (i) any of its representations and warranties set forth in the merger agreement being or becoming untrue; (ii) any of the conditions to the merger not being satisfied; or (iii) a violation of any provision of the merger agreement, except, in each case, as may be required by applicable law;

take any action, or amend its articles of incorporation or bylaws, the effect of which would be to materially and adversely affect the rights or powers of shareholders generally;

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take or omit to take any action that would materially adversely affect or materially delay the ability of Sterling and Northern Empire to obtain the required regulatory approvals or otherwise materially adversely affect Sterling's ability to consummate the transactions contemplated by the merger agreement; or

agree or commit to take any such prohibited action.

Conduct of Northern Empire Pending the Merger

From the signing of the merger agreement until the effective time of the merger, except as expressly contemplated by the merger agreement, Northern Empire has agreed that it and its sole subsidiary, Sonoma, shall, among other things:

Ordinary Course of Business.

conduct business in the usual, regular and ordinary course in substantially the same manner as previously conducted;

pay all debts, taxes and other obligations when due, in each case subject to good faith disputes;

use its commercially reasonable efforts to preserve intact its present business organizations, keep available the services of its present officers and key employees and preserve relationships with customers, suppliers, distributors, licensors, licensees, and other business contacts;

promptly notify Sterling of any change, occurrence or event not in the ordinary course of its or any subsidiary's business, and of any change, occurrence or event which, individually or in the aggregate with any other changes, occurrences and events, would reasonably be expected to cause any of the conditions to closing set forth in the merger agreement not to be satisfied;

use its commercially reasonable efforts to assure that each of its contracts entered into after September 17, 2006 will not require the procurement of any consent, waiver or novation or provide for any change in the obligations of any party in connection with, or terminate as a result of the consummation of, the merger, or, if it occurs, the merger of Sonoma with and into Sterling Savings Bank, and to give reasonable advance notice to Sterling prior to allowing any material contract or right thereunder to lapse or terminate by its terms;

maintain each of its leased premises in accordance with the terms of the applicable lease; and

maintain procedures for credit administration of real estate loans greater than \$500,000 that Northern Empire and Sonoma have agreed with the OCC that they will follow, including annual reviews, receipt of annual financial statements, debt service coverage analysis and annual property inspections.

In addition, from the signing of the merger agreement to the effective time of the merger, except as expressly contemplated by the merger agreement, Northern Empire has agreed that it shall not, and shall not permit Sonoma to, among other things:

Dividends and Capital Stock.

declare or pay any dividends on, or make other distributions in respect of, any capital stock, except cash dividends from Sonoma to Northern Empire, in conformity with past practice and applicable law;

split, combine or reclassify any shares of capital stock or issue, authorize or propose the issuance of any other securities for shares of its capital stock, except upon the exercise or fulfillment of options issued and outstanding as of September 17, 2006, pursuant to the Northern Empire Stock Option Plan;

repurchase, redeem or otherwise acquire, except as provided in the merger agreement, any shares of the capital stock of Northern Empire or Sonoma, or any securities convertible into or exercisable for any shares of the capital stock of Northern Empire or Sonoma; or

issue, allocate, deliver or sell, or authorize or propose the issuance, delivery or sale of, any shares of its capital stock or any securities convertible into or exercisable for, or any rights, warrants or options to acquire any such shares, or enter into any agreement with respect to any of the foregoing, other than the issuance of

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Northern Empire common stock pursuant to stock options or similar rights to acquire Northern Empire common stock granted pursuant to the Northern Empire Stock Option Plan outstanding prior to September 17, 2006.

Amendments to Governing Documents.

amend its articles of incorporation, bylaws or other similar governing documents unless required to do so by applicable law or regulation or by regulatory directive.

Alternative Proposals.

authorize or permit its representatives to solicit or engage in negotiations relating to an alternative merger or acquisition proposal, except as provided in the merger agreement.

Capital Expenditures.

make capital expenditures aggregating in excess of \$50,000, except as provided in the merger agreement.

Other Business.

enter into any new line of business; and

acquire or agree to acquire any business or division thereof or otherwise acquire any assets, other than in connection with foreclosures, settlements in lieu of foreclosure or troubled loan or debt restructurings, or in the ordinary course of business.

Representations and Warranties.

take any action that is intended or may reasonably be expected to result in: (i) any of its representations and warranties set forth in the merger agreement being or becoming untrue; (ii) any of the conditions to the merger not being satisfied; or (iii) a violation of any provision of the merger agreement, except, in each case as may be required by applicable law.

Accounting Methods.

change its methods of accounting in effect at December 31, 2005, except as required by changes in generally accepted accounting principles or regulatory accounting principles as concurred to by Northern Empire's independent auditors.

Compensation and Benefits.

except as required by applicable law or the merger agreement or to maintain qualification pursuant to the Code, adopt, amend, renew or terminate any benefit plan or any agreement, arrangement, plan or policy between Northern Empire or Sonoma and one or more of its current or former directors, officers or employees;

other than normal, budgeted annual increases in pay, consistent with past practice, for employees not subject to an employment, change of control or severance agreement, increase in any manner the compensation of any employee or director or pay any benefit not required by any plan or agreement as in effect as on September 17, 2006;

enter into, modify or renew any contract, agreement, commitment or arrangement providing for the payment to any director, officer or employee of compensation or benefits, other than normal annual increases in pay, consistent with past practice, for employees not subject to an employment, change of control or severance agreement;

hire any new employee at an annual compensation in excess of \$75,000, except to fill open positions consistent with past practices;

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pay aggregate expenses of more than \$3,000 per person of employees or directors who attend conventions or similar meetings after September 17, 2006;

promote any employee to a rank of vice president or more senior; or

except as provided in the merger agreement, pay any retention or other bonuses in excess of \$35,000 to any individual employee or in the aggregate in excess of \$250,000 per calendar quarter.

Indebtedness.

incur any indebtedness, with a term greater than two years, for borrowed money, or assume, guarantee, endorse or otherwise as an accommodation become responsible for the obligations of any other individual, corporation or other entity, in each case other than in the ordinary course of business consistent with past practices;

sell, purchase, enter into a lease, relocate, open or close any banking or other loan production office, or file an application pertaining to such action with any governmental entity, except as provided in the merger agreement; and

make any equity investment or commitment to make such an investment in real estate or in any real estate development project, other than in connection with foreclosure, settlements in lieu of foreclosure, or troubled loan or debt restructuring, in the ordinary course of business consistent with past practices.

Loans.

make any new loans to, modify the terms of any existing loan to, or engage in any other transactions, other than routine banking transactions, with, any officer, director or greater than 5% shareholder of Northern Empire or Sonoma (or any of their affiliates), or to or with any of their employees, except for loans, including loan renewals to officers, directors or employees that are in the ordinary course of business consistent with past practices and in compliance with applicable law including FBR Regulation O;

make any investment, or incur deposit liabilities, other than in the ordinary course of business consistent with past practices;

purchase or originate any: (i) loans except in accordance with existing Sonoma lending policies; (ii) unsecured consumer loans in excess of \$200,000; (iii) residential construction loans to any one borrower in excess of \$3,000,000 in the aggregate; (iv) residential permanent loans in excess of \$1,000,000; (v) raw land loans or acquisition and development loans in excess of \$500,000; (vi) individual lot loans in excess of \$500,000; (vii) letters of credit in excess of \$250,000; (viii) commercial owner-occupied real estate loans, including SBA 7(a) loans and SBA 504 loans, to any one borrower in excess of \$2,000,000 per loan and \$4,000,000 in the aggregate; (ix) non-mortgage loans to any one borrower in excess of \$500,000 per loan and \$2,500,000 in the aggregate; or (x) income property loans in excess of \$3,000,000, except in each case, as provided in the merger agreement; or

allow any overadvances for any construction loans.

Investments.

make any investments in any equity or derivative securities or engage in any forward commitment, futures transaction, financial options transaction, hedging or arbitrage transaction or covered asset trading activities or make any investment in any investment security with an average life greater than one year at the time of purchase other than obligations of state and political subdivisions; or

sell any held for investment loans or servicing rights related thereto, other than Small Business Administration loans sold in the secondary market in the ordinary course of business consistent with past practice and in accordance with the Northern Empire/Sonoma 2006 budget, or purchase any mortgage loan servicing rights.

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Commitments.

take or omit to take any action that would materially adversely affect or materially delay the ability of Northern Empire and Sterling to obtain the required regulatory approvals or otherwise materially adversely affect Northern Empire's or Sonoma's ability to consummate the transactions contemplated by the merger agreement.

Benefit Plans.

use its reasonable best efforts to terminate or withdraw from all employee benefits plans maintained by Northern Empire or Sonoma at or as soon as reasonably practicable after the effective time of the merger, except for the Northern Empire Bancshares 401(k) Profit Sharing Plan and the Northern Empire Stock Option Plan, as provided in the merger agreement. At Sterling's request, Northern Empire shall use its reasonable best efforts to take steps to amend, merge, terminate, withdraw from or take such other actions with respect to such employee benefit plans, at or as soon as reasonably practicable after the effective time of the merger, in accordance with the applicable plan documents and laws.

Additional Covenants

Northern Empire and Sterling have agreed to:

promptly advise each other of any change or event not in the ordinary course of business that, individually or in the aggregate, would reasonably be expected to cause any of the closing conditions set forth in the merger agreement not to be satisfied;

consult and cooperate with each other in order to formulate the plan of integration for the merger, including, among other things, with respect to conforming immediately prior to the effective time, based upon such consultation, Northern Empire's loan, accrual and allowance policies to those policies of Sterling to the extent consistent with generally accepted accounting principles;

promptly cause a registration statement for the merger to be prepared and filed with the SEC and to use their reasonable best efforts to have the registration statement declared effective by the SEC as soon as possible after the filing thereof. The parties have also agreed to cooperate in responding to any questions or comments from the SEC and in amending the registration statement as necessary;

cooperate with each other and use their best efforts to promptly prepare and file all necessary documentation, to effect all applications, notices, petitions and filings, and to obtain as promptly as practicable all permits, consents, approvals and authorizations of all third parties and governmental entities that are necessary or advisable to consummate the transactions contemplated by the merger agreement and to keep the other apprised of the status of matters relating to such transactions;

furnish each other all information concerning each other and their directors, officers and shareholders and such other matters as may be reasonably necessary or advisable in connection with the registration statement, this joint proxy statement/prospectus or any other statement, filing, notice or application made by or on behalf of Sterling or Northern Empire to any governmental entity in connection with the merger or the other transactions contemplated by the merger agreement;

promptly advise each other upon receiving any communication from any governmental entity whose consent or approval is required for consummation of the transactions contemplated by the merger agreement which causes

such party to believe that there is a reasonable likelihood that any required regulatory approval will not be obtained or that the receipt of any such approval will be materially delayed;

pursuant to a confidentiality agreement dated February 25, 2006 between Northern Empire and Sterling, keep confidential information they provide each other pursuant to the merger agreement;

use their reasonable best efforts (i) to comply with all legal requirements that may be imposed on them with respect to the merger; and (ii) obtain (and cooperate with each other to obtain) any consent, authorization,

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order or approval of, or any exemption by, any governmental entity and any other third party that is required to be obtained in connection with the merger;

promptly advise each other of any change or event that, individually or in the aggregate, has had or would be reasonably likely to have a material adverse effect on it or cause or constitute a material breach of any of its representations, warranties or covenants contained in the merger agreement;

promptly notify each other of any material change in the normal course of business or in the operation of their properties and of any governmental complaints, investigations or hearings, or the institution or the threat of litigation involving it or its subsidiary;

cause one or more of its designated representatives to confer on a regular and frequent basis (not less than monthly) with representatives of the other and to report the general status of the ongoing operations of that party; and

prior to the effective time of the merger, at Sterling's election, approve, execute and deliver an institution merger agreement for the merger of Sonoma with and into Sterling Savings Bank.

Northern Empire and Sterling also agree that:

Sterling may elect to modify the structure of the transactions contemplated by the merger agreement so long as: (i) there are no adverse tax consequences to the Northern Empire shareholders; (ii) the consideration and other benefits to be paid to or received by Northern Empire's shareholders and optionees, and Northern Empire and Sonoma directors, officers and employees are not changed or reduced; and (iii) such modification will not delay or jeopardize receipt of any required regulatory approvals; and

Sterling and Northern Empire shall each take all steps necessary to duly call, give notice of, convene and hold a special meeting of shareholders within 40 days after this joint proxy statement/prospectus becomes effective for the purpose of voting upon the adoption or approval of the merger agreement and the merger, and that the board of directors of Northern Empire shall recommend approval of the merger unless a change of recommendation is permitted as provided in the merger agreement.

Northern Empire has further agreed to:

afford to the representatives of Sterling, access, during normal business hours throughout the period prior to the effective time of the merger agreement, to all of its and Sonoma's properties, books, contracts, commitments and records during such period, and to give Sterling notice of all meetings of their respective boards of directors so that a Sterling representative may attend such portions of such meetings that do not pertain to (i) confidential matters as determined by such board of directors or (ii) the merger agreement or any of the transactions contemplated thereby;

not submit to a vote of the Northern Empire shareholders at or prior to the special shareholders' meeting any other acquisition proposal;

take any further action that is necessary or desirable to effect the purposes of the merger, or to vest Sterling with full title to all properties, assets, rights, approvals, immunities and franchises of any of the parties to the merger;

provide to Sterling an estimate of the expenses Northern Empire expects to incur in connection with the merger, and keep Sterling reasonably informed of material changes in such estimate; and

use its reasonable best efforts to cause each person who may be deemed to be an affiliate of Northern Empire to execute and deliver to Sterling an affiliate agreement. Such agreements were executed on September 15, 2006.

Sterling has further agreed that it or its subsidiaries, as appropriate, will:

prior to the effective time, adopt a resolution providing that the receipt by the Northern Empire insiders of Sterling common stock in exchange for shares of Northern Empire common stock, and of options to

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purchase Sterling common stock, are intended to be exempt from liability pursuant to Section 16(b) under the Exchange Act to the fullest extent permitted by applicable law;

afford to the representatives of Northern Empire such access, during normal business hours during the period prior to the effective time, to Sterling's representatives as Northern Empire shall reasonably request, and shall make available to Northern Empire a copy of each report, schedule, and other document filed by it (including by its subsidiaries) during such period pursuant to the requirements of federal securities laws or federal or state banking laws;

credit employees of Northern Empire or Sonoma with periods of service with Northern Empire or Sonoma before the effective time of the merger as if such service had been with Sterling or a Sterling subsidiary, as applicable for participation and vesting in employee benefit pension plans of Sterling;

provide credit to employees of Northern Empire and of Sonoma, with respect to the satisfaction of the waiting periods for participation and coverage that are applicable under the welfare benefit plans of Sterling or its applicable subsidiary, equal to the credit that any such employee had received as of the effective time of the merger towards the satisfaction of any such limitations and waiting periods under the comparable welfare benefit plans of Northern Empire and of Sonoma;

provide each employee of Northern Empire and of Sonoma with credit for any co-payment and deductibles paid prior to the effective time of the merger in satisfying any deductible or out-of-pocket requirements;

allow each employee of Northern Empire and Sonoma to have credit for all unused sick leave as of the effective time of the merger;

provide coverage for all pre-existing conditions that were covered under any welfare plan of Northern Empire or Sonoma;

provide Northern Empire employees credit for prior service for vacation accruals after the effective time of the merger;

provide severance benefits to those employees of Northern Empire and of Sonoma whose employment is involuntarily terminated without cause at or within 180 days after the effective time of the merger unless such employees are entitled to receive severance payments under employment, severance or similar agreements;

indemnify and hold harmless the officers, directors and employees of Northern Empire and of Sonoma for any liabilities incurred in connection with any matters arising prior to the merger out of their service as an officer, director or employee of Northern Empire or of Sonoma or the merger agreement for a period of six years after the merger;

use commercially reasonable efforts to cause the persons serving as officers and directors of Northern Empire and of Sonoma immediately prior to the effective time of the merger to be covered by a directors' and officers' liability insurance tail policy with respect to acts or omissions occurring prior to the effective time for a period of six years; and

take all action necessary to appoint one member of Northern Empire's board of directors to Sterling's board of directors and one member of Northern Empire's board of directors to Sterling Savings Bank's board of directors, each as selected by Sterling, and to invite other members of Northern Empire's board of directors to serve on an advisory board to Sterling Savings Bank for a term of at least one year from the closing date.

Conditions to Consummation of the Merger

Each party's obligation to effect the merger is subject to the satisfaction or waiver, where permissible, of the following conditions:

approval of the merger agreement by the requisite vote of Sterling and Northern Empire shareholders;

approval for quotation on Nasdaq of the shares of Sterling common stock that are to be issued to Northern Empire shareholders in the merger;

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receipt of required regulatory approvals for the merger and the related transactions and the expiration of all statutory waiting periods in respect thereof;

effectiveness of the registration statement, of which this joint proxy statement/prospectus forms a part, under the Securities Act, with no stop order suspending the effectiveness of the registration statement having been issued and no proceedings for that purpose having been initiated or threatened by the SEC;

absence of any order, injunction or decree issued by any court or agency of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the merger or any of the other transactions contemplated by the merger agreement;

receipt by each party of the opinion of its tax counsel in form and substance reasonably satisfactory to it, dated as of the effective time, that the merger will be treated for U.S. federal income tax purposes as a reorganization under Section 368(a) of the Code;

accuracy of the representations and warranties of the other party in all material respects as of the closing date of the merger, and, to the extent representations and warranties speak as of some other date, then those representations and warranties shall be true and correct as of such date, provided, however, that the representations and warranties will be deemed to be true and correct, unless, with certain exceptions, the failure or failures of the representations and warranties to be true and correct have had or can reasonably be expected to have a material adverse effect on the party making the representation;

performance by each party in all material respects of all covenants and agreements required to be performed by it under the merger agreement at or prior to the closing date of the merger; and

all corporate and other proceedings in connection with the transactions contemplated at the closing of the merger and all documents incident thereto must be reasonably satisfactory in form and substance to each party's counsel, and each party shall have received all such counterpart originals and certified or other copies of such documents as it may reasonably request.

Sterling's obligation to effect the merger is also subject to satisfaction, or waiver, of the following conditions:

receipt by Sterling of voting agreements from Messrs./Mdmes. C. Carinalli, Gallaher, Geary, Hunter, Keegan, Jr., Meekins, Titus, K. Carinalli, Wright, Barton and Baker. These agreements were executed and delivered to Sterling concurrently with the merger agreement;

receipt by Sterling of an employment agreement from Ms. Meekins, President and Chief Executive Officer of Northern Empire and Sonoma. The employment agreement with Ms. Meekins was executed and delivered to Sterling on September 17, 2006. Ms. Meekins must also remain employed by Northern Empire or Sonoma from September 17, 2006 through the closing date of the merger and not have taken any action to rescind such agreement;

receipt by Sterling of noncompetition agreements from Messrs. Hunter, C. Carinalli, Keegan, Jr., Gallaher and Geary. These agreements were executed and delivered to Sterling concurrently with the merger agreement; and

Sterling shall have received resignations from each director of Northern Empire and Sonoma.

We cannot assure you if or when the required regulatory approvals necessary to consummate the merger will be obtained, or whether all of the other conditions precedent to the merger will be satisfied or waived by the party permitted to do so. If the merger is not completed on or before April 2, 2007, either Sterling or Northern Empire may terminate the merger agreement, unless the failure to effect the merger by that date is due to the failure of the party seeking to terminate the merger agreement to perform or observe covenants and agreements of that party set forth in the merger agreement.

Nonsolicitation

Under the terms of the merger agreement, Northern Empire has agreed that it shall not authorize or permit its officers, directors, employees, agents, advisors and affiliates to, and that it shall direct Sonoma to not, initiate,

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solicit, encourage or knowingly facilitate any takeover proposals or other forms of business combination with a third party. In addition, Northern Empire has agreed that it shall not, and that it shall direct Sonoma to not, negotiate or furnish any nonpublic information in any way in connection with any competing takeover proposals by third parties, unless Northern Empire's board of directors determines in good faith that (i) the takeover proposal, if consummated, is reasonably likely to result in a transaction more favorable to holders of Northern Empire common stock than the merger; and (ii) after considering the advice of counsel, it has a fiduciary duty to negotiate with or provide nonpublic information to the party who submitted the competing proposal.

Termination of the Merger Agreement